

22. HEDGING DERIVATIVES

This balance is analysed as follows:

	(Thousands of euros)			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Swaps	18,804	99,453	28,115	104,957
Others	-	12,899	5,232	3,356
	18,804	112,352	33,347	108,313

Hedging derivatives are measured in accordance with internal valuation techniques considering observable market inputs and, when not available, on information prepared by the Bank by extrapolation of market data. In accordance with the hierarchy of the valuation sources, as referred in IFRS 13 these derivatives are classified in level 2. The Bank resources to derivatives to hedge interest, exchange rate exposure risks and credit portfolio risk. The accounting method depends on the nature of the hedged risk, namely if the Bank is exposed to fair value changes, variability in cash flows or highly probable forecast transactions.

For the hedging relationships which comply with the hedging requirements of IAS 39, the Bank adopts the hedge accounting method mainly interest rate derivatives. The fair value hedge model is adopted for debt securities, loans granted at fixed rate and money market loans and deposits, securities and combined hedge of variable rate financial assets and fixed rate financial liabilities. The cash flows hedge model is adopted for future transactions in foreign currency to cover dynamic changes in cash flows from loans granted and variable rate deposits in foreign currency and foreign currency mortgage loans.

During 2017, the relationships that follow the fair value hedge model recorded ineffectiveness of a negative amount of Euros 5,778,000 (31 December 2016: positive amount of Euros 12,893,000) and the hedging relationships that follow the cash flows model recorded no ineffectiveness.

During 2017, reclassifications were made from fair value reserves to results, related to cash flow hedge relationships, in a positive amount of Euros 26,586,000 (31 December 2016: positive amount of Euros 16,220,000).

The accumulated adjustment on financial risks covered performed on the assets and liabilities which includes hedged items is analysed as follows:

Hedged items	(Thousands of euros)	
	2017	2016
Loans	4,763	6,019
Deposits	4,194	6,341
Debt issued	(47,816)	(51,038)
	(38,859)	(38,678)

The analysis of hedging derivatives portfolio by maturity as at 31 December 2017 is as follows:

(Thousands of euros)

	2017					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	-	5,288	6,434,440	6,439,728	17,060	53,401
Others	450,000	-	-	450,000	-	12,899
	450,000	5,288	6,434,440	6,889,728	17,060	66,300
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	-	-	12,050,000	12,050,000	1,744	46,052
Total derivatives traded by:						
OTC Market	450,000	5,288	18,484,440	18,939,728	18,804	112,352

The analysis of hedging derivatives portfolio by maturity as at 31 December 2016 is as follows:

(Thousands of euros)

	2016					
	Notional (remaining term)				Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year	Total	Assets	Liabilities
Fair value hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate swaps	341,100	-	6,038,576	6,379,676	25,755	75,912
Others	550,000	150,000	-	700,000	5,232	3,356
	891,100	150,000	6,038,576	7,079,676	30,987	79,268
Cash flow hedging derivatives related to interest rate risk changes:						
OTC Market:						
Interest rate Swaps	-	-	6,500,000	6,500,000	2,360	29,045
Total derivatives traded by:						
OTC Market	891,100	150,000	12,538,576	13,579,676	33,347	108,313