

## 24. HEDGING DERIVATIVES

This balance is analysed, by hedging instruments, as follows:

	(Thousands of euros)			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Swaps	234,345	164,438	51,806	380,636
Others	-	12,899	5,232	3,356
	234,345	177,337	57,038	383,992

Hedging derivatives are measured in accordance with internal valuation techniques considering observable market inputs and, when not available, on information prepared by the Group 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 Group resources to derivatives to hedge interest and exchange rate exposure risks. The accounting method depends on the nature of the hedged risk, namely if the Group 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 Group adopts the hedge accounting method mainly interest rate and exchange 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 4,897,000 (31 December 2016: positive amount of Euros 11,238,000) and the hedging relationships that follow the cash flows model recorded ineffectiveness of a negative amount of Euros 4,622,000 (31 December 2016: negative amount of Euros 4,206,000).

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 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	4,825	6,242
Deposits	4,194	6,341
Debt issued	(48,415)	(51,806)
	(39,396)	(39,223)

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

(Thousands of euros)

	2017					
	Notional (remaining term)			Total	Fair value	
	Up to 3 months	3 months to 1 year	Over 1 year		Assets	Liabilities
<b>Fair value hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps	-	5,288	6,724,940	6,730,228	20,444	53,744
Others	450,000	-	-	450,000	-	12,899
	450,000	5,288	6,724,940	7,180,228	20,444	66,643
<b>Cash flow hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps	76,396	249,784	12,467,904	12,794,084	3,756	46,054
<b>Cash flow hedging derivatives related to currency risk changes:</b>						
OTC Market:						
Currency swaps	89,800	9,932	-	99,732	12,501	-
Other currency contracts	492,427	412,928	2,781,626	3,686,981	197,644	42,352
	582,227	422,860	2,781,626	3,786,713	210,145	42,352
<b>Hedging derivatives related to net investment in foreign operations:</b>						
OTC Market:						
Currency and interest rate swap	-	224,675	371,152	595,827	-	22,288
<b>Total derivatives traded by:</b>						
OTC Market	1,108,623	902,607	22,345,622	24,356,852	234,345	177,337

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

(Thousands of euros)

	2016				Fair value	
	Notional (remaining term)			Total	Assets	Liabilities
	Up to 3 months	3 months to 1 year	Over 1 year			
<b>Fair value hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps	341,100	-	6,548,576	6,889,676	27,168	90,865
Others	550,000	150,000	-	700,000	5,232	3,356
	891,100	150,000	6,548,576	7,589,676	32,400	94,221
<b>Cash flow hedging derivatives related to interest rate risk changes:</b>						
OTC Market:						
Interest rate swaps	77,092	158,719	6,677,312	6,913,123	3,963	29,273
<b>Cash flow hedging derivatives related to currency risk changes:</b>						
OTC Market:						
Currency swaps	93,356	141,393	-	234,749	2,375	1,931
Other currency contracts	771,735	974,062	2,538,745	4,284,542	89	258,515
	865,091	1,115,455	2,538,745	4,519,291	2,464	260,446
<b>Hedging derivatives related to net investment in foreign operations:</b>						
OTC Market:						
Currency and interest rate swap	-	178,371	358,768	537,139	18,211	52
<b>Total derivatives traded by:</b>						
OTC Market	1,833,283	1,602,545	16,123,401	19,559,229	57,038	383,992