7. Annual Accounts 2019

Cecabank, S.A.
Individual Annual Accounts, management report and report corresponding audit to the 2019 financial year.

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Auditor's Report

Financial Statements

Annual Report

Management Report

Cecabank, S.A.

Independent auditor´s report on the annual accounts
December 31, 2019

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Independent auditor´s report on the annual accounts

To the shareholders of Cecabank, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Cecabank, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 1.2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Third party securities depository and custody	

As is described in Note 1, the Company is a wholesale back specialising in securities services and one of its main businesses is securities depository and custody services.

The Company's memorandum accounts at 31 December 2019 record financial instruments deposited by third parties with a value of 159,217 million euros held as a part of the depository and custody services provided to various financial institutions, as is described in Notes 13 and 27.3.

During 2019 the Company received fees totalling 96,559 thousand euros, as described in Note 31, in exchange for the deposit and custody services mentioned above and, therefore, it is the most relevant business in terms of revenue.

We consider this business to be a key audit matter due to its relevance to the financial statements taken as a whole, as well as the materiality of the revenues received in that respect.

Our work has focused on the analysis, assessment and verification of internal control, as well as the performance of detailed tests.

In the internal control area, we have focused on the design and operation of the depository and custody business controls, primarily the verification of reconciliations of securities and assets on deposit and held in custody on behalf of third parties, as well as the fees accrued for performing this activity.

We have also performed detailed tests consisting of:

- Obtaining and analysing a sample of the contractual documentation governing the depository and custody services rendered by the Company to its customers and we checked that the documents coincide with the accounting entries.
- Recalculation of all depository fees and a sample of custody fees received in 2019.
- Third-party confirmations for a sample of the fees accrued during the year for the depository operations.
- Verification of the reconciliations of securities carried out by Company management, as well as an analysis of the items in reconciliation at 31 December 2019.
- External confirmation of all of the counterparty items on deposit and held in custody at 31 December 2019.
- Verification of the proper recognition of the disclosures of the balances set out in the Company's financial statements at 31 December 2019.

As a result of the aforementioned procedures, we did not detect any significant weaknesses in this respect.

Key audit matter	How our audit addressed the key audit matter

Measurement of financial derivatives

The Company maintains investments in diverse types of financial instruments in the amount of 4,281 thousand euros (asset) and 1,225 million euros (liability). At the year-end these balances represent 37% of total assets and 12% of total liabilities in the balance sheet in the accompanying financial statements.

These financial instruments are classified as Level 1, Level 2 and Level 3. Note 21 indicates that the fair value of financial instruments is determined as follows:

- Level 1: listed price on active markets.
- Level 2: using measurement techniques in which significant inputs are based on directly or indirectly observable market data.
- Level 3: using measurement techniques in which some significant inputs are not based on observable market data.

Moreover, the measurement of financial instruments is one of the most significant estimates made by Company management and various measurement techniques and methods are used, as is explained in Notes 2.2, 2.3 and 21 of the accompanying consolidated financial statements.

We therefore consider the classification and measurement of financial instruments to be a key audit matter due to the importance they have within the financial statements and the high degree of professional judgement that is required.

We have obtained an understanding of management's estimation process in collaboration with our financial instrument measurement experts.

In the internal control area we have focused on an assessment of the design and operation of controls over the following processes:

- Calculation methods applied by management, verifying that they are in line with applicable accounting standards.
- Regulatory and operational compliance by the internal models approved by management.
- Reliability of the sources of the data used in the calculations and the adequacy of the models taking into account the circumstances.

We have also performed detailed tasks consisting of:

- Verification that the measurement process method applied by management is in line with applicable accounting regulations, market practices and the specific expectations of the sector.
- Verification of the classification of financial instruments by level, based on observable prices in active markets.
- Comparison and re-execution of the measurement carried out by Company management based on classifications of the various financial instrument portfolio samples.
- Comparison and re-execution of the effectiveness test for a sample selection of files of accounting hedges.
- Verification of the proper recognition of the disclosures of the balances set out in the Company's financial statements at 31 December 2019.

When performing the aforementioned tests, no differences were identified beyond a reasonable range.

Key audit matter	How our audit addressed the key audit matter
Matters associated with computer systems The Company uses complex computer systems in its operations, both for operations and calculating, processing, recording, archiving, preparing and presenting its financial and accounting information. Accordingly, adequate control over them and the protocol for accessing applications and databases is essential to guarantee the correct processing of the financial information. Within this context, knowledge of, evaluating and verifying general controls relating to financial reporting systems, including access to applications and databases, constitute a key area of our work. We have considered the effectiveness of the general internal control framework for information systems relating to the process of accounting for transactions and closing the accounts to be a key matter with respect to performing certain audit procedures based on internal controls.	Our work consisted of the verification of the general computer controls and automatic controls within the applications that support the Company's most significant business processes. We collaborated with our IT system specialists when performing the audit work in this area. The main audit procedures carried out on the Company's information systems that were considered relevant to the generation of financial information were as follows: • Verification of controls relating to matters arising from the development, operation and maintenance of applications, their security and the definition of user and access profiles, together with the segregation of the tasks performed by the users accessing those systems. • Understanding of key business processes and the identification of automatic controls existing in the application that support and validate them. • Understanding and verifying the accounting close process, the generation of "non-standard" entries and selective tests of the extraction and filtering of these entries within the financial reporting systems. As a result of our procedures, we did not detect any material weaknesses that could significantly affect the financial information included in the accompanying financial statements.

Other questions

The Company annual accounts, that ended in December 31, 2018, were audited by another auditor, who expressed a favourable opinion on said annual accounts on February 19, 2019.

Other information: Management report

Other information comprises only the management report for the 2019 financial year, the formulation of which is the responsibility of the Company´s directors, and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is defined in the regulations governing the activity of auditing accounts, which establishes two different levels on it:

a) A specific level that is applicable to the state of non-financial information, which consists of verifying only that the aforementioned information has been provided in the management report, or if applicable, that the reference corresponding to the separate report has been incorporated into it on non-financial information in the manner provided in the regulations, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the management report, which consists of evaluating and reporting on the consistency of the aforementioned information with the annual accounts, based on the knowledge of the entity obtained in carrying out the audit of the cited accounts and without including information other than that obtained as evidence during the same, as well as evaluating and informing if the content and presentation of this part of the management report are in accordance with the applicable regulations. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described in the previous paragraph, we have verified that the management report includes a reference that the information mentioned in section a) above is presented in the consolidated management report of the Cecabank Group in which the Company is integrated and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Cecabank, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company´s directors are responsible for assessing the Company´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated February 21, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on March 20, 2018 appointed us as auditors for a period of 3 years, as from the year ended December 31, 2019.

Services provided

The services, other than the accounts audited, that have been provided to the audited entity are described in note 36 of the annual accounts report.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Fco. Javier Astiz Fernández (15411)

February 21, 2020

7. Annual Accounts 2019

Cecabank, S.A.
Individual Annual Accounts, management report and report corresponding audit to the 2019 financial year.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Balance sheets at 31 December 2019 and 2018

(Expressed in Thousands of Euros)

Assets	2019	2018
Cash, cash balances at central banks and other demand deposits (Note 5)	**2,268,107**	**3,267,077**
Financial assets held for trading (Note 6.1)	**1,849,540**	**1,920,383**
Derivatives	981,563	926,943
Equity instruments	379,531	240,744
Debt securities	488,446	752,696
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*99,786*	*96,475*
Non-trading financial assets mandatorily at fair value through profit or loss (Note 6.2)	**39,017**	**60,413**
Equity instruments	8,497	19,093
Debt securities	30,117	41,320
Loans and advances	403	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	-	*33*
Financial assets designated at fair value through profit or loss (Note 6.3)	**-**	**-**
Financial assets at fair value through other comprehensive income (Note 7)	**2,072,461**	**1,478,973**
Equity instruments	14,269	10,295
Debt securities	2,058,192	1,468,678
Loans and advances	-	-
Memorandum item: lent or delivered as guarantee with a right of sale or pledged	*823,287*	*137,278*
Financial Assets at amortised cost (Note 8)	**5,074,354**	**2,497,312**
Debt securities	307,700	21,503
Loans and advances	4,766,654	2,475,809
Credit institutions	4,038,453	1,924,448
Customers	728,201	551,361
Memorandum item: lent or delivered as guarantee with a right of sale or pledged	*464,711*	*72,244*
Derivatives - hedge accouting (Note 9)	**12,784**	**17**
Fair value changes of hedged items in portfolio hedge of interest rate risk	**-**	**-**
Investment in subsidiaries, joint ventures and associates (Note 11)	**312**	**312**
Subsidiaries	312	312
Joint Ventures	-	-
Associates	-	-
Tangible assets (Note 12)	**52,627**	**51,175**
Property, plant and equipment	45,622	43,987
For own use	45,622	43,987
Investment property	7,005	7,188
Of which: assigned in operating lease	-	-
Memorandum item: acquired in finance lease	*2,694*	-
Intangible assets	**195,334**	**205,402**
Goodwill	-	-
Other intangible assets (Note 13)	195,334	205,402
Tax assets (Note 20)	**86,391**	**108,242**
Current tax assets	3,492	7,924
Deferred tax assets	82,899	100,318
Other assets (Note 14.1)	**65,571**	**56,731**
Remainder of other assets	65,571	56,731
Non-current assets and disposable groups of items classified as held for sale (Note 10)	**3,002**	**3,791**
Total assets	**11,719,500**	**9,649,828**

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Cecabank, S.A.

Balance sheets at 31 December 2019 and 2018

(Expressed in Thousands of Euros)

Patrimonio Neto y Pasivo	2019	2018
Financial liabilities held for trading (Note 6.1)	**1,211,746**	**1,376,857**
Derivatives	1,021,166	967,023
Short positions	190,580	409,834
Financial liabilities designated at fair value through profit or loss (Note 6.3)	**-**	**-**
Financial liabilities at amortised cost (Note 15)	**9,211,764**	**6,946,340**
Deposits	9,063,006	6,668,423
Central Banks	445,990	349,573
Credit Institutions	1,673,014	1,202,472
Customers	6,944,002	5,116,378
Other financial liabilities	148,758	277,917
Derivatives - hedge accounting (Note 9)	**13,463**	**6,898**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts	**-**	**-**
Provisions (Note 16)	**101,848**	**122,595**
Pensions and other post-employment defined benefit obligations	41,656	49,710
Pending legal issues and tax litigations	9,011	9,800
Commitments and guarantees given	303	274
Other provisions	50,878	62,811
Tax liabilities	**14,329**	**19,051**
Current liabilities	-	1,038
Deferred tax liabilities	14,329	18,013
Other liabilities (Note 14.2)	**59,666**	**104,917**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
Total liabilities	**10,612,816**	**8,576,658**
Shareholders' equity	**1,087,635**	**1,063,402**
Share capital	112,257	112,257
Paid up capital (Note 18)	112,257	112,257
Share premium (Note 18)	615,493	615,493
Retained earnings (Note 19)	309,108	266,567
Other reserves (Note 19)	5,592	5,591
Profit for the year (Note 3)	45,185	63,494
Accumulated other comprehensive income	**19,049**	**9,768**
Items that will not be reclassified to profit or loss	13,016	14,534
Actuarial gains or losses on defined benefit pensions plans (Note 17)	7,274	11,451
Changes of fair value of equity instruments measured at fair value through other comprehensive income	5,742	3,083
Items that may be reclassified to profit or loss	6,033	(4,766)
Changes of fair value of debt instruments measured at fair value through other comprehensive income (Note 17)	6,033	(4,766)
Total equity	**1,106,684**	**1,073,170**
Total liabilities and equity	**11,719,500**	**9,649,828**

Memorandum item		
Commitments from loans granted (Note 27.1)	**713,894**	**199,602**
Financial guarantees granted (Note 27.1)	**-**	**52**
Other obligations granted (Note 27.1)	**1,516,957**	**183,090**

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Cecabank, S.A.

Income statements for the years ended 31 December 2019 and 2018

(Expressed in Thousands of Euros)

	2019	2018
Interest income (Note 28)	**79,300**	**90,055**
Financial assets at fair value through other comprehensive income	20,444	29,145
Financial assets at amortised cost	13,326	6,346
Other interest income	45,530	54,564
Interest expenses (Note 29)	**(92,784)**	**(83,747)**
Net interest income	**(13,484)**	**6,308**
Dividend income (Note 30)	12,756	15,199
Fee and commission income (Note 31)	142,716	134,359
Fee and commission expenses (Note 32)	(21,437)	(15,172)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 33)	29,340	23,430
Financial assets at amortised cost	3	3
Other financial assets and liabilities	29,337	23,427
Gains or losses on financial assets and liabilities held for trade, net (Note 33)	(47,978)	(15,900)
Gain or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 33)	2,728	(4,477)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 33)	-	(10)
Gains or losses from hedge accounting, net (Note 33)	680	(3,824)
Exchange differences, net	75,248	65,158
Other operating income (Note 34)	33,959	48,267
Other operating expenses (Note 37)	(4,275)	(3,986)
Gross income	**210,253**	**249,352**
Administrative expenses	(114,066)	(127,029)
Staff costs (Note 35)	(44,337)	(51,042)
Other administrative expenses (Note 36)	(69,729)	(75,987)
Amortisation (Note 39)	(44,297)	(46,204)
Provisions and reversal of provisions (Note 16)	11,561	12,125
Impairment or reversal of impairment and gains or losses due to changes in cash flows of financial assets not measured at fair value through profit or loss or net gains or losses (-) due to changes (Notes 22 and 38)	(1,421)	497
Financial assets at fair value through other comprehensive income	(788)	309
Financial Assets at amortised cost	(633)	188
Impairment loss or reversal of impairment loss of investments in subsidiaries, joint ventures or associates	-	-
Impairment loss or reversal of impairment loss of non-financial assets	-	-
Tangible assets	-	-
Intangible assets	-	-
Others	-	-
Gains or losses on derecognition of non-financial assets and investments, net (Notes 11 and 12)	**(4)**	**10**
Negative goodwill recognised in profit or loss	-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (net) (Note 10)	1,031	(10)
Profit or loss before tax from continuing operations	**63,057**	**88,741**
Tax expense or income related to profit or loss from continuing operations (Note 20.2)	(17,872)	(25,247)
Profit or loss after tax from continuing operations	**45,185**	**63,494**
Profit or loss after tax from discontinued operations	-	-
Profit for the year	**45,185**	**63,494**

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Cecabank, S.A.

Statements of changes in equity for the years ended 31 December 2019 and 2018

(Expressed in Thousands of Euros)

a) Statements of recognised income and expense

	2019	2018
Profit for the year	**45,185**	**63,494**
Other comprehensive income	**9,281**	**(29,625)**
Items that will not be reclassified to profit or loss	**(1,518)**	**1,823**
Actuarial gains or losses on defined benefit pension plans (Note 35)	(5,967)	617
Non-current assets and disposal groups held for sale	-	-
Changes of fair value of equity instruments measured at fair value through other comprehensive income (Notes 7 and 20.4)	3,799	1,987
Tax on gains related to the items that will not be reclassified (Note 20.4)	650	(781)
Items that may be reclassified to profit or loss	**10,799**	**(31,448)**
Foreign currency translation	-	-
Translation gains or losses taken to equity	-	-
Cash flow hedges	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Debt instruments at fair value through other comprehensive income (Note 20.4)	15,427	(44,926)
Valuation gains or losses taken to equity	44,764	(21,499)
Transferred to profit or loss (Notes 7 and 20.4)	(29,337)	(23,427)
Tax on gains related to the items that may be reclassified in profit or loss (Note 20.4)	(4,628)	13,478
Total comprehensive income for the year	**54,466**	**33,869**

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Cecabank, S.A.

Statements of changes in equity for the years ended 31 December 2019 and 2018

(Expressed in Thousands of Euros)

b) Statements of changes in total equity

	Shareholders' equity								
	Share capital (Note 18)	Share premium (Note 18)	Retained earnings	Other reserves (Note 19)	(-) Treasury shares	Profit for the year (Note 3)	(-) Interim dividends	Accumulated other comprehensive income (Note 17)	Total equity
Opening balance (before restatement) at 1 January 2018	**112,257**	**615,493**	**-**	**211,653**	**-**	**73,218**	**-**	**45,058**	**1,057,679**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	5,536	-	-	-	(5,665)	(129)
Opening balance at 1 January 2018	**112,257**	**615,493**	**-**	**217,189**	**-**	**73,218**	**-**	**39,393**	**1,057,550**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**63,494**	**-**	**(29,625)**	**33,869**
Other changes in equity	**-**	**-**	**266,567**	**(211,598)**	**-**	**(73,218)**	**-**	**-**	**(18,249)**
Dividends (or remuneration of members)	-	-	-	-	-	(18,304)	-	-	(18,304)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	266,567	(211,653)	-	(54,914)	-	-	-
Other increase or decrease in equity	-	-		55	-		-	-	55
Closing balance at 31 December 2018	**112,257**	**615,493**	**266,567**	**5,591**	**-**	**63,494**	**-**	**9,768**	**1,073,170**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2019	**112,257**	**615,493**	**266,567**	**5,591**	**-**	**63,494**	**-**	**9,768**	**1,073,170**
Total comprehensive income for the year	-	-	-	-	-	**45,185**	-	**9,281**	**54,466**
Other changes in equity	**-**	**-**	**42,541**	**1**	**-**	**(63,494)**	**-**	**-**	**(20,952)**
Dividends (or remuneration of members)	-	-	(20,953)	-	-	-	-		(20,953)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-		-
Transfers among components of equity	-	-	63,494	-	-	(63,494)	-	-	-
Other increase or decrease in equity	-	-	-	1	-	-	-		1
Closing balance at 31 December 2019	**112,257**	**615,493**	**309,108**	**5,592**	**-**	**45,185**	**-**	**19,049**	**1,106,684**

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Statements of cash flows for the years ended 31 December 2019 and 2018

(Expressed in Thousands of Euros)

	2019	2018
Cash flows from operating activities	**(947,440)**	**650,086**
Profit for the year	**45,185**	**63,494**
Adjustments made to obtain the cash flows from operating activities	**13,324**	**101,642**
Amortisation (Note 39)	44,297	46,204
Other adjustments	(30,973)	55,438
Net (increase)/decrease in operating assets	**(3,009,317)**	**836,648**
Financial assets held for trading (Note 6.1)	123,204	215,535
Non trading financial Assets mandatory measured at fair value through profit and loss	22,570	31,355
Financial assets designated at fair value through profit or loss (Note 6.2)	-	256,866
Financial assets at fair value through other comprehensive income (Note 7)	(582,762)	160,483
Financial assets at amortised cost (Note 8)	(2,576,558)	186,575
Other operating assets	4,229	(14,166)
Net increase/(decrease) in operating liabilities-	**2,008,341**	**(338,667)**
Financial liabilities held for trading (Note 6.1)	(165,111)	(163,121)
Financial liabilities at amortised cost (Note 15)	2,265,424	(86,281)
Other operating liabilities	(91,972)	(89,265)
Income tax recovered/(paid)	**(4,973)**	**(13,031)**
Cash flows from investing activities	**(30,577)**	**(21,514)**
Payments:	**(32,429)**	**(21,514)**
Tangible assets (Note 12)	(2,134)	(1,827)
Intangible assets (Note 13)	(30,295)	(19,687)
Investments in subsidiaries, joint ventures and associates (Note 11)	-	-
Non-current assets and liabilities classified as held for sale (Note 10)	-	-
Proceeds:	**1,852**	**-**
Tangible assets (Note 12)	-	-
Intangible assets (Note 13)	-	-
Investments in subsidiaries, joint ventures and associates (Note 11)	-	-
Non-current assets and liabilities classified as held for sale (Note 10)	1,852	-
Cash flows from financing activities	**(20,953)**	**(18,304)**
Payments:	**(20,953)**	**(18,304)**
Dividends (Note 30)	(20,953)	(18,304)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Proceeds:	**-**	**-**
Effect of foreign exchange rate changes	**-**	**-**
Net increase (decrease) in cash and cash equivalents	**(998,970)**	**610,268**
Cash and cash equivalents at the beginning of year (note 5)	3,267,077	2,656,809
Cash and cash equivalents at end of year (note 5)	2,268,107	3,267,077
Memorandum item		
Components of cash and cash equivalents at end of year (note 5)		
Cash	153,912	119,015
Cash balances at central banks	2,009,191	3,046,432
Other demand deposits	105,004	101,630
Less: Bank overdrafts refundable on demand	-	-

7. Annual Accounts 2019

Cecabank, S.A. Individual Annual Accounts, management report and report corresponding audit to the 2019 financial year.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Notes to the Financial Statements for the year Ended 31 December 2019

1. Introduction, basis of presentation of the financial statements and other information

1.1. Introduction

Cecabank, S.A. (the "Bank" or the "Entity") is a financial institution established on 17 October 2012 by virtue of a public document executed by the Notary Mr. Manuel Richi Alberti. The Bank has been recorded in the Commercial Registry since 12 November 2012 and the Bank of Spain Register of financial institutions with code number 2000.

As from the entry into force of the Single Supervisory Mechanism ("SSM") on 4 November 2014, the European Central Bank ("ECB") assumed responsibility for supervising European credit institutions, one of which is the Bank. The SSM is a new banking supervision system that includes the ECB and the national supervisors (the Bank of Spain in this case). The ECB is empowered to determine and monitor the application of the supervision criteria by the bank, in close cooperation with the Bank of Spain. Therefore, the Bank of Spain is responsible for supervising the Bank directly, while the ECB supervises it indirectly since it has ultimate responsibility for ensuring that the SSM works correctly.

The Bank's headquarters is located in Madrid, at Calle Alcalá, 27. The Bank's bylaws are available either at this address or on its website (www.cecabank.es), together with other relevant legal information.

The Confederación Española de Cajas de Ahorros ("CECA") holds 89% of the bank's share capital, as a result of the Confederacion's spin-off of all its assets and liabilities to Cecabank, S.A., except for certain assets and liabilities relating to its community project fund. The Bank was thus created in that year and it subrogated to all the rights and obligations held by CECA until then.

Cecabank, S.A. specialises in securities services, including acting as a depository entity for investment funds and pension plans, the custody of securities and other financial assets, as well as the execution and settlement of transactions involving those assets.

The Bank bylaws set out the activities that it may engage in and establish its corporate purpose:

a) The performance of all type of activities, transactions and services inherent to the Banking business in general or directly or indirectly related to that business, when permitted by current legislation, including investment and auxiliary services and those related with insurance brokering.

b) The rendering of technological, administrative or assessment services to Public Administrations or to any other public or private entity.

c) The acquisition, possession and disposal of any real estate instrument.

The Bank is therefore part of the group, of which the Confederación Española de Cajas de Ahorros is the parent, together with its associates that are also shareholders of the Bank and with which it carries out significant transaction volumes.

Likewise, Cecabank S.A. offers international coverage to its clients, mainly through its Foreign Network (branches) and its Correspondent Network (overseas offices).

The foreign network, with branches in London and Lisbon, and overseas offices in Paris and Frankfurt, has the following functions:

- Support the entity's strategic plan through the promotion of its key businesses: Securities Services, Treasury Management, and Payments.
- Market knowledge and local support.
- Knowledge of processing cross-border payment orders related to FX.
- Collaborate with different pension payments and data management agencies for more than 210 companies such as: benefits, pensions, compensations, and supplementary payments.
- Institutional representation before European Organizations.
- Foreign trade promotion services (market information, intermediary selection, commercial reports and demands, business center, payment management, legal assessment, tax representation and VAT recovery, trade missions, establishment of branches and subsidiaries, service visits to fairs, etc.).

1.2. Basis of presentation of the financial statements

The Bank's financial statements for 2019 are presented in accordance with the regulatory financial reporting framework applicable to the Bank established by Bank of Spain Circular 4/2017 for credit institutions, and regarding public and confidential financial reporting rules and formats ("Circular 4/2017") and subsequent amendments. This Bank of Spain Circular covers the transposition and adaptation of International Financial Reporting Standards adopted by the European Union for use by Spanish credit institutions.

The Bank's financial statements for 2019 have been prepared taking into account all mandatory accounting principles, standards and measurement criteria, in order to present fairly the Bank’s equity and financial position at 31 December 2019 and of the results of its operations and cash flows during the year then ended, in accordance with the financial reporting framework mentioned in the previous paragraph. That framework is applicable, particularly with respect to the accounting principles and criteria contained therein, as indicated in the preceding paragraph.

The Bank´s financial statements for 2019 were prepared by the Board of Directors at a meeting held on 20 February 2020. The Bank's financial statements for 2018 were approved by Shareholders at a General Meeting held on 26 March 2019. The Bank's financial statements for 2019 have yet to be approved by shareholders at a General Meeting. However, the Bank's Board of Directors believes that they will be approved without any significant change being made.

1.3. Consolidation

The Bank is the head of a Group comprising various entities (see Note 2.1 “Investments”) and, as such, prepares consolidated financial statements with its subsidiaries. As per the content of the aforementioned consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the total consolidated assets of the Bank and Subsidiaries (“the Cecabank Group”) at the end of 2019 and 2018 amounted to EUR 11,722,087 thousand and EUR 9,653,023 thousand, respectively, consolidated equity was EUR 1,108,269 thousand and EUR 1,074,958 thousand, respectively, and the consolidated net profit attributable to the Group for 2019 and 2018 totalled EUR 44,979 thousand and EUR 63,489 thousand, respectively.

The Cecabank Group's condensed consolidated financial statements for 2019 and 2018 are as follows:

Condensed consolidated balance sheets at 31 December 2019 and 2018:

Thousands of euros

Assets	2019	2018
Cash, cash balances at central banks and other sight deposits	2,269,692	3,268,540
Financial assets held for trading	1,849,540	1,920,383
Non-traded financial assets designated at fair value through profit or loss	39,017	60,413
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	2,072,461	1,478,973
Financial assets at amortised cost	5,075,340	2,499,151
Derivatives - hedge accounting	12,784	17
Investments in subsidiaries, joint ventures and associates	-	-
Property, plant and equipment	52,667	51,179
Intangible assets	195,544	205,713
Tax assets	86,391	108,242
Other assets	65,649	56,621
Non-current assets and disposal groups classified as held for sale	3,002	3,791
Total Consolidated Assets	**11,722,087**	**9,653,023**

Thousands of euros

Liabilities	2019	2018
Financial liabilities held for trading	1,211,746	1,376,857
Financial liabilities designated at fair value through profit or loss	-	-
Financial Liabilities at Amortised Cost	9,212,428	6,947,403
Derivatives - hedge accounting	13,463	6,898
Provisions	101,848	122,595
Tax Liabilities	14,329	19,051
Other Liabilities	60,004	105,261
Total Liabilities	**10,613,818**	**8,578,065**
Equity		
Shareholders' equity	1,088,814	1,064,741
Share Capital	112,257	112,257
Share Premium	615,493	615,493
Retained earnings	310,450	267,914
Other Reserves	5,592	5,591
Profit/(loss) for the year	45,022	63,486
Accumulated other comprehensive income	19,049	9,768
Non-controlling interests	406	449
Total Consolidated Equity	**1,108,269**	**1,074,958**
Total Consolidated Equity and Liabilities	**11,722,087**	**9,653,023**

Consolidated Income Statements for 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Interest income	79,298	90,055
Interest expense	(92,789)	(83,751)
Net Interest Income	**(13,491)**	**6,304**
Dividend income	12,756	15,199
Share of results of entities accounted for using the equity method	-	-
Fee and commission income	141,194	134,359
Fee and commission expenses	(21,437)	(15,172)
Net gains or losses on derecognition of assets and liabilities not measured at fair value through profit or loss	29,340	23,430
Net gains or losses on financial assets and liabilities held for trading	(47,978)	(15,900)
Net gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	2,728	(4,477)
Net gains and losses on financial assets designated at fair value through profit or loss	-	(10)
Net gains or losses from hedge accounting	680	(3,824)
Net differences on exchange	75,248	65,158
Other operating income	42,474	55,298
Other operating expenses	(10,343)	(9,814)
Gross Income	**211,171**	**250,551**
Administrative expenses	(115,082)	(128,135)
Depreciation and amortisation charge	(44,409)	(46,283)
Provisions or reversal of provisions	11,561	12,125
Impairment or reversal of impairment and gains or losses due to changes in cash flows of financial assets not measured at fair value through profit or loss or net gains or losses due to changes	(1,417)	490
Profit/(loss) from Operations	**61,824**	**88,748**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-	-
Gains or losses on derecognition of non-financial assets and investments, net	(4)	(2)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	1,031	(10)
Profit or loss before tax from continuing operations	**62,851**	**88,736**
Tax expense or income related to profit or loss from continuing operations	(17,872)	(25,247)
Profit or loss after tax from continuing operations	**44,979**	**63,489**
Profit or loss after tax from discontinued operations	-	-
Profit/(loss) for the year	**44,979**	**63,489**
Attributable to Non-controlling interests	(43)	3
Attributable to Non-controlling interests	45,022	63,486

1.4. Information relating to 2018

For the purposes of comparison, the Entity's Board of Directors presents the figures for 2019 for each of the items set out in these annual accounts together with the figures for 2018, which were audited by a different audit firm.

On 1 January 2018 Bank of Spain Circular 4/2017 (27 November) entered into force and included modifications to the requirements governing the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. Note 2 “Accounting principles and policies and measurement methods applied” in these financial statements describes the new accounting treatment applied.

1.5. Responsibility for the information and use of estimates

The information in these financial statements is the responsibility of the Bank's Directors.

In the preparation of the Bank's financial statements for 2019 estimates were made by its Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- Impairment losses on certain assets (see Notes 2.3 “Impairment of financial assets“, 2.13 “Property, plant and equipment”, 2.14 “Intangible assets” and 2.16 “Non-current assets and Disposal Groups Classified as Held for Sale”).

- Assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other non-current obligations to employees. (see Note 2.11 “Staff costs”).

- Calculation of the provisions, if any, to be recognised to cover certain risks arising from the Bank’s activity (see Notes 2.10 “Financial guarantees and provisions recorded” and 2.15 “Provisions and contingent liabilities”).

- The useful life of property, plant and equipment and intangible assets (see Notes 2.13 “Property, plant and equipment” and 2.14 “Intangible assets”).

- The fair value of certain unlisted financial instruments (see Note 2.2.3 “Fair value and amortised cost of financial instruments”).

- The assumptions used in the estimates of the probability of recovery of the deferred tax assets recognised by the Bank (see Note 2.12 “Income Tax”).

Despite the fact that these estimates have been prepared based on the best information available at the end of 2019 and 2018, future events may require modifications to be made to these estimates (upwards or downwards) in coming years, which would be done in accordance with applicable legislation on a prospective basis.

1.6. Agency agreements

Neither at 2019 nor 2018 year-end nor at any other time during those years did the Bank have any agency agreements in force, as defined in Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

1.7. Investments in the share capital of credit institutions

At 31 December 2019 and 2018 the Bank did not hold any ownership interests of 5% or more in the share capital or voting rights of any Spanish or foreign credit institutions.

1.8. Environmental impact

In view of the business activities carried on by the Bank, it does not have a significant impact on the environment. Therefore, it was not necessary to recognise any provision in this connection the Bank's financial statements for 2019 and they do not contain any disclosures on environmental issues.

1.9. Capital management objectives, policies and processes

On 2 February 2016, Bank of Spain Circular 2/2016, was published for credit institutions and concerns supervision and solvency. This Circular covers the Spanish adaptation of Directive 2013/36/EU and Regulation (EU) 575/2013, which are applicable to the Bank.

EU Regulation (EU) 575/2013 laid down uniform rules that must be complied with by entities in relation to: 1) own funds requirements relating to elements of credit risk, market risk, operational risk and settlement risk; 2) requirements limiting large exposures; 3) liquidity risk coverage relating to entirely quantifiable, uniform and standardised elements of liquidity risk, after the Commission delegated act has entered into force; 4) the setting of the leverage ratio; and 5) public disclosure requirements.

The aforementioned EU Regulation introduces a review of the concept and of the components of the regulatory own funds required of entities. These consist of two elements: Tier 1 capital and Tier 2 capital.

In turn, Tier 1 capital comprises Common Equity Tier 1 and Additional Tier 1 capital. Therefore, Tier 1 capital consists of instruments that are able to absorb losses when the entity is a going concern, while the elements of Tier 2 capital will absorb losses primarily when the entity is not viable.

Institutions must generally satisfy the following own funds requirements at all times:

i) A Common Equity Tier 1 capital ratio of 4.5% (CET 1).

ii) A Tier 1 capital ratio (Common Equity plus Additional Tier 1) of 6%.

iii) A total capital ratio of 8%.

In addition to these requirements, pursuant to the aforementioned legislation the Bank must comply with the following capital requirements:

- Maintain a capital preservation buffer of 2.5% consisting of ordinary tier 1 capital.

- Maintain an anti-cyclical capital buffer that may total up to 2.5% of ordinary tier 1 capital. Since 2016, the level that this buffer must attain has been set on a quarterly basis by Spanish authorities based on macroeconomic variables when excessive credit growth that may be a source of systemic risk has been observed. Since its effective implementation on 1 January 2016 the Bank of Spain has maintained the capital buffer at 0% for credit exposures located in Spain.

- The Bank has not been designated as a systemic entity and no capital buffer has therefore been established.

In addition to the aforementioned requirements, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions establishes the authority of the Bank of Spain to require credit institutions to hold higher levels of capital than those indicated above. In this respect, on 27 November 2019 the Bank of Spain informed Cecabank, S.A. that it complied with the requirements established by Article 92.1 of Regulation (EU) 575/2013, of the European Parliament and of the Council, of 26 June 2013, on the Prudential requirements for credit institutions and investment firms. The Bank is required to maintain an overall consolidated and individual capital ratio of not less than 9.73% (TSCR ratio) (10.23% reported for 2019) and the Bank and its Group are also subject to the overall capital requirement (OCR) as defined in section 1.2 of the Guidelines EBA/GL/2014/13 which include, in addition to the TSCR ratio, a requirement for combined buffers, as defined by Article 43 and subsequent of Law 10/2014 and its enabling regulations.

This requirement has been in place since 1 January 2020. The Bank and the Group's consolidated and individual capital was above the requirement at 31 December 2019 as well as during all of 2019.

The strategic capital management objectives set by Bank management are as follows:

- To comply, at all times with the applicable regulations on minimum capital requirements.

- To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered to be a key variable in any analysis related to the Bank's investment decisions.

In order to meet these objectives, the Bank has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

- In the Bank's strategic and operational planning, and in the analysis and follow-up of the operations of the Group to which it belongs, the impact of decisions on the Bank's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.

- As part of its organisational structure the Bank has monitoring and control units which at all times analyses the level of compliance with the applicable regulations on capital, with alerts in place to guarantee compliance with the applicable regulations.

The Bank’s management of its capital, as far as conceptual definitions are concerned, is in keeping with Regulation (EU) No 575/2013. With a view to ensuring that the aforementioned objectives are met, the Bank performs integrated management of these risks, in accordance with the policies and processes indicated above.

The Bank's Common Equity Tier 1 capital and its CET 1 plus Additional Tier 1 capital amounted to EUR 858,758 thousand at 31 December 2019, in both cases (31 December 2018: EUR 791,312 thousand), while total capital totalled EUR 858,758 thousand at that date (31 December 2018: EUR 791,312 thousand), representing a Tier 1 capital adequacy ratio and a total capital ratio of 35,20%, at 31 December 2019 (31 December 2018: 35,83%), above the minimum requirements.

Common Equity Tier 1 capital includes mainly share capital, share premium and the Bank's reserves net of deductions (intangible assets).

1.10. Minimum reserve ratio

Throughout 2019 and 2018, the Bank met the minimum reserve ratio required by applicable legislation.

At 31 December 2019 and 2018 the Bank’s cash balance with Bank of Spain for these purposes amounted to EUR 2,009,191 and 3,046,432 thousand, respectively (see Note 5 “Cash, balances at central banks and other sight deposits”). This ratio is calculated on the basis of the daily ending balance held by the Bank in this account during the required period.

1.11. Deposit guarantee fund

a) Deposit guarantee fund

The Bank participates in the Deposit Guarantee Fund (“DGF”). The annual contribution to be made to this Fund, established by Royal Decree-Law 16/2011, of 14 October, creating the DGF, as amended by Final Provision Ten of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms (in force since 20 June 2015), is determined by the Managing Committee of the DGF and is calculated based on the amount of each entity's guaranteed deposits and its risk profile.

The purpose of the DGF is to guarantee deposits at credit institutions up to the limit envisaged in the aforementioned Royal Decree-Law. In order to achieve its objectives, the DGF is funded by the aforementioned annual contributions, the extraordinary levies the Fund makes on member entities and by the funds obtained in the securities markets, loans and any other debt transactions.

Taking the foregoing into account, in order to reinforce the equity of the DGF, Royal Decree-Law 6/2013, of 22 March, on protection of holders of certain savings and investment products and other financial measures established an extraordinary levy equal to 3 per mil of the institutions' deposits at 31 December 2012. This extraordinary levy was paid in two tranches:

i) Two-fifths to be paid within 20 business days from 31 December 2013. The Bank paid this contribution, which amounted to EUR 7 thousand, in the first few days of January 2014.

ii) Three-fifths to be paid within seven years in accordance with the payment schedule established by the Managing Committee of the DGF. In this regard, based on the contribution schedule approved by the Managing Committee of the DGF, the Bank paid one-seventh of this second tranche on 30 September 2014, and on 17 December 2014 the Managing Committee approved payment of the remainder of the second tranche in two disbursements on 30 June 2015 and 2016 (which were settled on those dates).

Additionally, at its meeting on 2 October 2019, the Managing Committee of the DGF, as provided for in Article 6 of Royal Decree-Law 16/2011, of 14 October, creating the DGF, and in Article 3 of Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions, established the annual contributions of DGF member institutions for 2019 as follows:

a) The total annual contribution of all member institutions to the deposit guarantee compartment of the DGF was set at 1.8/1,000 of the calculation base -i.e. the guaranteed monetary deposits, as indicated in Article 3.2-a) of Royal Decree 2606/1996- existing at 30 June 2019, and the contribution of each institution was calculated on the basis of the amount of the guaranteed deposits and its risk profile.

b) The annual contribution of member institutions to the securities guarantee compartment of the DGF was set at 2/1,000 of the calculation base -i.e. 5% of the quoted price of the guaranteed securities, as indicated in Article 3.2-b) of Royal Decree 2606/1996- existing at 31 December 2019.

The expense incurred for the contributions accruing to the DGF during 2019 amounted to EUR 98 thousand (2018: EUR 118 thousand), which were recognised under "Other Operating Expenses" in the accompanying income statement (see Note 37 "Other operating expenses").

b) Single Resolution Fund

In March 2014, the European Parliament and the Council reached a political agreement for the creation of the second pillar of the Banking Union, the Single Resolution Mechanism ("SRM"). The SRM's main purpose is to ensure an orderly resolution of failing banks in the future with minimal costs to taxpayers and to the real economy. The SRM's scope of activity is identical to that of the SSM, i.e., a central authority, the Single Resolution Board ("SRB"), is ultimately responsible for deciding whether to initiate the resolution of a bank, while the operational decision is implemented in cooperation with the national resolution authorities. The SRB commenced its work as an independent EU agency on 1 January 2015.

The purpose of the rules governing banking union is to ensure that bank resolutions will be financed first of all by the banks and their shareholders and, if necessary, partly by the bank's creditors. However, another source of funding will also be available to which recourse can be had if the contributions of the shareholders and of the bank's creditors are not sufficient. This is the Single Resolution Fund ("SRF"), which is administered by the SRB. The legislation requires banks to make the contributions to the SRF over eight years.

In this regard, on 1 January 2016, Regulation (EU) No 806/2014 of the European Parliament and of the Council, of 15 July 2014, came into force. Under this Regulation the SRB replaces the national resolution authorities with respect to the management of financing arrangements for the resolution mechanisms for credit institutions and certain investment firms within the framework of the SRM. As a result, the SRB is now responsible for administering the SRF and for calculating the ex-ante contributions of institutions within its scope of application.

The SRB calculates the contributions to be paid by each institution in accordance with the information sent to each institution in an official form for the calculation of the ex-ante contribution. The amount was the result of applying the calculation methodology specified in Commission Delegated Regulation (EU) 2015/63, of 21 October 2014, based on the uniform conditions of application indicated in Council Implementing Regulation (EU) 2015/81, of 19 December 2014.

The target level for all the contributions has been set at one-eighth of 1.05% of the quarterly average of covered deposits in the eurozone in 2015, resulting in a Europe-wide contribution target for the Fund of EUR 7,008 million in 2016. Article 69 of Regulation (EU) No 806/2014 establishes that the available financial means of the Fund (at least 1% of the amount of covered deposits) must be reached within eight years from 1 January 2016.

Article 8.1 of Council Implementing Regulation (EU) 2015/81 stipulates that 60% of the contributions shall be calculated on a national basis and the remaining 40% on a basis common to all participating member States.

The expense incurred by the Bank in relation to the contribution made to the SRF in 2019 totalled EUR 4,092 thousand (2018: EUR 3,835 thousand) and is recognised under "Other Operating Expenses" in the accompanying income statement (see Note 37 "Other operating expenses")

1.12. Main regulatory changes during the period from 1 January to 31 December 2019

Following is a summary of the main Bank of Spain Circulars issued in 2019.

Bank of Spain Circular 2/2018, of 21 December, amending Bank of Spain Circular 4/2017, of 27 November, to credit institutions on public and confidential financial reporting rules and formats, and Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.

The main purpose of this Circular is to adapt Bank of Spain Circular 4/2017 to Commission Regulation (EU) 2017/1986 of 31 October 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (EU-IFRS) 16, Leases.

Bank of Spain Circular 1/2019, of January 30, amending Circular 8/2015, of December 18, to the entities and branches attached to the Credit Institutions Deposit Guarantee Fund, on information to determine the basis for calculating contributions to the Credit Institutions Deposit Guarantee Fund. (BOE of February 8, 2019).

This circular amends Circular 8/2015 in order to guarantee higher quality of the data in the files containing depositor information and to allow depositors to be more easily identified in a situation in which they must be reimbursed by the Deposit Guarantee Fund for Credit Institutions.

Bank of Spain Circular 2/2019, of 29 March, regarding the requirements of the Fee Information Document and the Commission Statement, together with the websites comparing payment accounts. This circular amends Circular 5/2012, of 27 June, on credit institutions and payment services suppliers with respect to the transparency of banking services and responsibilities when granting loans. (BOE dated 4 April 2019).

The approval of this Circular is intended to obtain a higher level of transparency and comparability of the fees charged by the various payment services suppliers for services associated with payment accounts. This Circular is also intended to duly comply with the various mandates entrusted to the Bank of Spain, particularly those relating to comparison websites and to certain fees associated with the basic payment account contract.

Bank of Spain Circular 3/2019, of 22 October, through which the authority granted by Regulation (EU) 575/2013 is exercised to define the materiality threshold for matured credit obligations. (BOE dated 1 November)

Section 4 of this Circular establishes the materiality thresholds in accordance with the provisions of Article 178 of Regulation (EU) 575/2013.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the Bank's financial statements were as follows:

2.1. Investments

2.1.1. Investments in subsidiaries, joint ventures and associates

“Subsidiaries” are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent Company owns directly or indirectly half or more of the voting rights of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Bank control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

“Joint ventures” are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities

(“venturers”) acquire interests in entities (“jointly controlled entities”) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting rights investee.

Investments in subsidiaries, joint ventures and associates are measured at cost net, where appropriate, of any accumulated impairment losses that may need to be recognised. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement.

Impairment losses are recognised immediately in the income statement for the period in which they arise. Reversals of previously recognised impairment losses are recognised immediately in the income statement for the period.

Any dividends earned on these ownership interests in the year are recognised under “Dividend Income” in the income statement when earned, which is when the Bank’s right to receive them is established, which is the date on which they are declared by the related governing bodies of the investees.

Note 11, “Investments in subsidiaries, joint ventures and associates” and in Appendix I “Group companies” to these financial statements provide significant information on these companies and on the most significant acquisitions and disposals in 2019 and 2018.

2.2. Financial instruments - Initial recognition, derecognition, definitions of fair value and amortised cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Bank becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognised from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognised from the trade date.

A regulated purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognised on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognised on the settlement date; equity instruments traded in Spanish secondary securities markets are recognised on the trade date and debt instruments traded in these markets are recognised on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognised when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.4 “Transfers and disposals of financial assets and liabilities from the balance sheet”).

Also, a financial liability is derecognised when the obligations it generates have been extinguished or when it is purchased by the Bank, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a given date is considered to be the amount for which it could be bought or sold on that date by two knowledgeable parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market (“quoted price” or “market price”).

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of measurement techniques commonly used by the financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organised, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in thin or scantly transparent organised markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (“present value” or “theoretical close”) using measurement techniques recognised by the financial markets: “net present value” (NPV), option pricing models, etc.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortisation (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility.

The Bank has contracted at 31 December 2019 and 2018 various reverse repurchase loan operations (see Note 8 “Financial assets at amortised cost”), for which it must return the securities making up the collateral to the former owner at expiration. At 31 December 2019 and 2018 the fair value of the securities received as collateral in these repo transactions does not differ significantly from the carrying amount of these operations.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the Circular 4/2017, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Pursuant to Circular 4/2017, the classification and measurement of the financial assets is performed according to the business model considered by the Bank for the management and the features of the contractual flows, as defined below:

- The business model for the management of financial assets is the mechanism through which the Bank jointly manages the groups of financial assets to generate cash flows. This model may consist of holding onto these financial assets so to receive their contractual cash flows, for the sale of these assets or a combination of both objectives.

- The characteristics of the contractual cash flows of financial assets can be those whose contractual terms and conditions provide, on determined dates, cash flows and consist only of payments of principal and interest on the outstanding principal, commonly known as "Solely Payments of Principal and Interest (SPPI)" and all other characteristics.

a) Business models

There are three types of business models, which are based on the treatment of cash flows for financial instruments:

- **Amortised cost -** collection of contractual cash flows: consists of holding assets for the purpose of collecting contractual cash flows (principal and interest) on specific dates during the term of the instrument.

- **Mixed -** collection of contractual cash flows and the disposal of financial assets: this mixed business model combines the objective of holding assets to collect contractual cash flows, whose conditions cover the payments of principal and interest, and also the disposal of these assets.

- **Trade -** sale of financial assets: the business model consists of purchasing and disposal of assets. The Bank makes its decisions based on the fair value of the assets and manages these in order to obtain their fair value.

b) SPPI Test

The purpose of the SPPI test is to determine whether or not, in accordance with the contractual characteristics of the instrument, cash flows are representative of only the repayment of the principal and interest, essentially understood as being the compensation for the time value of money and the credit risk of the debtor.

The main function of the test is to differentiate which products covered by the "collection of contractual cash flows" and "collection of contractual cash flows and the disposal of financial assets" business models can be measured at amortised cost and at fair value through other comprehensive income, respectively, or, on the contrary, that must be measured at fair value through profit or loss. Debt instruments that are measured at fair value through profit or loss, as well as equity instruments, are not subject to this analysis.

Specifically, financial assets based on its business model and the SPPI test can be classified as:

- **Financial assets at amortised cost:** when the instrument is managed in order to generate cash flows in the form of contractual collections during the life of the instrument while passing the SPPI test.

- **Financial assets at fair value through other comprehensive income:** when the instrument is managed to generate cash flows, i) in the form of contractual collections during the life of the instrument or ii) through their sale while passing the SPPI test. Moreover, those equity instruments that the Group has voluntarily and irrevocably designated at the beginning will be recorded in this portfolio.

- **Financial assets held at fair value through profit or loss:** when the instrument is managed to generate cash flows through their sale or when it does not pass the SPPI test based on the business models of the previous sections. There are two categories for these assets:

- **Financial assets held for trading:** This subcategory includes instruments that have any of the following characteristics: i) they are held for the purpose of converting them into cash in the short term; ii) they are part of a group of financial instruments identified and jointly managed and there is evidence of recent actions to achieve short-term profit taking and iii) they are derivative instruments that do not meet the definition of a financial guarantee agreement nor have they been classified as hedging instruments.

- **Non-traded financial assets designated at fair value through profit or loss:** This subcategory includes the rest of financial assets.

  The Bank may decide at the time of initial recognition, and irrevocably, to include any equity instruments that cannot be classified as held for trading in the "Financial assets at fair value through other comprehensive income" portfolio. This option will be carried out on an instrument by instrument basis. Also, during the initial recognition, and irrevocably, the Bank may choose to designate any financial asset as fair value through profit or loss, and by doing so eliminates or significantly reduces any inconsistency in the measurement or recognition (accounting asymmetry) that would otherwise arise, for the measurement of assets or liabilities, or the recognition of their gains and losses, on different bases.

  Regardless of the frequency and importance of sales, certain types of sales are not incompatible with the category held to receive contractual cash flows: such as sales due to a reduction in credit quality, sales close to the expiration of operations, so that any changes to market prices would not have a significant effect on the cash flows of the financial asset, sales in response to a change in the regulatory or taxation rules, sales in response to an internal restructuring or significant business combination, derivative sales during the execution of a liquidity crisis plan when the crisis event is not reasonably expected.

  The Bank has defined the business models and has segmented its financial instrument portfolio for the purposes of performing the SPPI test, making a distinction between: i) families of instruments that group together fully homogeneous products ("umbrella families") in such a way that, while testing a sample of portfolio products, a conclusion could be drawn whether or not the other products of the same family pass the test and ii) products, due to their nature, requiring an individual analysis ("case by case") that the Bank has to make for all the SPPI tests.

  Nevertheless, financial instruments that should be considered as non-current assets and disposal groups classified as held for sale are recognised in the financial statements as explained in section 2.16 "Non-current assets and Disposal Groups Classified as Held for Sale" of this Note.

  As for the classification of financial liabilities, they are included for the purpose of measurement in some of the following three portfolios:

- **Financial liabilities at fair value through profit or loss:** this category includes financial liabilities designated as such from initial recognition, the fair value of which may be determined reliably, and which meet the same conditions than for the financial assets at fair value with changes in profit or loss previously described.

- **Financial liabilities held for trading:** include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of temporary purchased assets under non-optional repurchase agreements or borrowed securities, and derivatives other than as hedging instruments.

- **Financial liabilities at amortised cost:** this category includes all financial instruments except for those qualified for being included in the other portfolios.

2.3. Impairment of financial assets

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the period in which the impairment becomes evident. Except for financial assets at fair value through other comprehensive income, which accounting will be recognised against "other comprehensive income". The reversal, if any, of previously recognised impairment losses is recognised in the income statement for the period in which the impairment is reversed or reduced to accumulated other comprehensive income.

When the recovery of any recognised amount is considered unlikely, the amount is written off ("written-off asset"), without prejudice to any actions that the Bank may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The criteria applied by the Bank to determine possible impairment losses in each of the various financial instrument categories and the method used to recognise such impairment losses are as follows:

2.3.1. Debt instruments carried at amortised cost

The amount of an impairment loss incurred on a debt instrument carried at amortised cost is equal to the positive difference between its carrying amount and the all the cash flows at the effective original interest rate. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

The expected credit losses will be the weighted average of the credit losses, using as weights the respective risks of default events. The following distinction will be taken into account: i) Expected credit losses in the life of the operation: these are the expected credit losses resulting from all possible events of default during the entire expected life of the operation. ii) Expected credit losses in twelve months: they are the part of the credit losses expected during the life of the operation that corresponds to the expected credit losses resulting from the events of default that may occur in the operation in the following twelve from the reference date.

The hedging amount for impairment shall be calculated according to whether or not there has been a significant increase in the credit risk since initial recognition and whether or not default has occurred. Accordingly, impairment hedging shall be equal to:

- The expected twelve-month credit losses when the risk of default has not significantly increased since initial recognition.

- The lifetime expected credit losses if the risk of default has significantly increased since initial recognition.

- Expected credit losses when default has occurred.

Financial instruments are grouped into three categories based on the impairment method applied, in accordance with the following structure:

- **Stage 1 –** Normal risk: those transactions the credit risk of which has not significantly increased since initial recognition. Impairment hedging shall be equal to the twelve-month expected credit losses. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.

- **Stage 2 –** Normal risk under special surveillance: those transactions the credit risk of which has significantly increased since initial recognition, but without default. Impairment hedging shall be equal to the lifetime expected credit losses of the transaction. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.

- **Stage 3 –** Non-performing: credit-impaired transactions, i.e. there has been default. Hedging shall be equal to the expected credit losses. Interest revenue shall be calculated by applying the effective interest rate at amortised cost (i.e. adjusted for an impairment allowance) of the financial instrument.

The measurement of whether or not there has been any significant increase in credit risk must be based on reasonable and supportable information that is available free of charge or disproportionate effort, which shall indicate the credit risk increases since initial recognition and must reflect historical, actual and forward-looking information.

The definitions established to measure the significant credit risk are in keeping with the following criteria:

- Adverse changes in the financial situation, such as a significant increase in debt levels, as well as significant increases in debt service ratios.

- Significant falls in turnover or, in recurring cash flows.

- Significant narrowing of operating margins.

- Significant changes in the cost of credit risk, due to changes in this risk subsequent to initial recognition.

- A real or expected reduction of the internal or external credit rating of the operation or of the owner thereof.

- Adverse changes in the economy, in market conditions or worsening of the operation owner's financing terms.

- Business slowdown or unfavourable trends in the owner's operations, which may cause a significant change in their ability to meet their payment obligations.

- For operations with real guarantee, significant worsening of the relationship between the risk amount and the value of the guarantee.

- Significant increases in the credit risk of other operations of the same owner.

In any case, Stage 2 is considered with respect to instruments in which any of the following circumstances occur:

- Defaults of over 30 days.

- Financial instruments that are subject to special surveillance by the risk units because they show negative signs in their credit quality, although there is no objective evidence of impairment.

- Refinances or restructuring operations that do not show impairment evidence.

Method to calculate expected losses

The Bank has decided to continue using the practical solutions to calculate its expected portfolio losses in accordance with the requirements set forth in Circular 4/2017.

The measurement process for possible impairment losses for these instruments that involve the risk of insolvency for obligors (credit risk) is done:

- Individually, for all debt instruments classified as doubtful risks and which are significant by exceeding a certain threshold or for which specific information from the borrower that allows carrying out its evaluation is available.

- Collectively, for operations classified as normal risk, by applying the alternative solutions contained in Appendix 9 to Circular 4/2017, calculated on the bases of the parameters established by the Bank of Spain based on sector information and its accrued experience.

The amount for impairment losses, estimated in accordance with the criteria set forth above, are registered in the headings “Impairment losses or reversals on financial assets not at fair value through profit or loss – Financial assets at amortised cost”.

2.3.2. Debt instruments classified as financial assets at fair value through other comprehensive income

The amount of the impairment losses on debt instruments included in the portfolio of financial assets at fair value through other comprehensive income is determined on the basis of the criteria described in section 2.3.1 above for debt instruments carried at amortised cost, and is recognised in “Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Debt Instruments Measured at Fair Value through Other Comprehensive Income”.

The amount of any impairment losses on equity instruments included in the portfolio of financial assets at fair value through other comprehensive income is the positive difference between their acquisition cost and their fair value less any impairment loss previously recognised in the income statement. Any impairment losses must be recognised under “Other Comprehensive Income - Items that Will not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income”.

2.3.3. Investments in subsidiaries, joint ventures and associates

Impairment losses on investments in subsidiaries, joint ventures and associates that, for the purposes of the preparation of these financial statements, are not considered to be “financial instruments, are estimated and accounted for as follows: when, in accordance with Circular 4/2017, there is evidence of impairment of these investments, the amount of the impairment loss will be estimated as the negative difference between the recoverable amount of the investment (calculated as the higher of fair value of the investment less the estimated costs of disposal and value in use; value in use is defined as the present value of the cash flows expected to be received from the investment in the form of dividends and the cash flows relating to its disposal) and its carrying amount. Impairment losses on these investments and any reversals of such impairment losses are recognised with a charge or credit, respectively, to “Impairment or Reversal of Impairment of Investments in Subsidiaries, Joint Ventures or Associates” in the Income Statement.

2.4. Transfers and derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the Bank transfers substantially all the risks and rewards of the transferred assets to third parties - unconditional sale of financial assets, sale of financial assets with a repurchase agreement at its fair value at the repurchase date, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

  It is considered that the Bank substantially transfers the risks and benefits if the transferred risks and benefits represent the majority of the total risk of the transferred assets.

- If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the credit losses on the securitised assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised, without offsetting:

    - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortised cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability (see Note 2.2.4 "Classification and measurement of financial assets and liabilities").

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

- If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of financial assets in which the transferor retains a subordinated debt or another type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

    - If the transferor does not retain control, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised.

    - If the transferor retains control, it continues to recognise the transferred financial asset in the balance sheet for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 27.2 "Assets delivered as security" and 27.4 "Financial assets lent and borrowed" contain a summary of the main circumstances of the principal transfers of assets outstanding at 2019 and 2018 years-end which did not lead to the derecognition of the related assets (securities lending transactions and repurchase agreements under non-optional repurchase agreements).

2.5. Reclassification between financial instrument portfolios

These occur only and exclusively when there is a change in the business model that manages financial assets, in accordance with the regulations in force. This reclassification is done prospectively on the date of reclassification, without it being appropriate to state any gains, losses or interests previously recognised again. Generally, the business model is not changed very often.

2.6. Hedge accounting and mitigation of risk

The Bank uses financial derivatives as part of its strategy to reduce its exposure to interest rate. When these transactions meet the requirements stipulated in the regulation, they qualify for hedge accounting.

When the Bank designates a transaction as a hedge it does so upon initial recognition of the transactions and documents it appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Bank to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Bank only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Bank analyses whether, from the beginning to the end of the term defined for the hedge, the Bank can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

The hedging operations carried out by the Bank are classified under the category of fair value hedges. These cover exposure to changes in the fair value of financial assets and liabilities or firm commitments not yet recognised, or an identified portion of such assets, liabilities or commitments, attributable to a particular risk and whenever they affect to the profit and loss account.

In relation to financial instruments designated as hedged items and hedge accounting in fair value hedges such as those made by the Bank, the differences produced at fair value, both in the hedging elements and in the hedged items (in this case, those associated with the hedged risk), are recognised directly in the "Gains or losses resulting from the hedge accounting, net" in the income statement (see Note 33 “Net gains/losses on financial assets and liabilities”).

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked.

When, as explained in the preceding paragraph, hedge accounting is discontinued for a fair value hedge, in the case of hedged items carried at amortised cost, the value adjustments made as a result of the hedge accounting described above are recognised in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

Note 9 “Derivatives – hedge accounting” details the nature of the main positions hedged by the Bank and the financial hedging instruments used.

2.7. Foreign currency transactions

2.7.1. Functional currency

The functional and reporting currency of the Bank is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in “foreign currency”.

The detail, by currency and item, of the equivalent value in Thousands of euros of the main asset and liability balances denominated in foreign currencies in the balance sheets at 31 December 2019 and 2018 is as follows:

	Equivalent Value in Thousands of euros (*)			
	2019		2018	
Nature of Foreign Currency Balances:	Assets	Liabilities	Assets	Liabilities
Amount in US Dollars-				
Cash	65,641	-	58,538	-
Financial assets and liabilities held for trading	4,500	1,367	277	279
Financial assets at fair value through other comprehensive income	178,619	-	-	-
Demand deposits and financial assets at amortised cost	289,715	-	322,460	-
Financial liabilities at amortised cost		2,049,120	-	1,404,522
Other assets and liabilities	12	5,898	-	-
	538,487	2,056,385	381,275	1,404,801
Balances in pounds sterling-				
Cash	985	-	888	-
Financial assets/liabilities held for trading	26,120	-	47,593	-
Financial liabilities at amortised cost	-	191,667	-	163,946
Other assets and liabilities	-	25	-	-
	27,105	191,692	48,481	163,946
Balances in pounds sterling				
Cash	49,859	-	33,118	-
Financial assets/liabilities held for trading	-	-	-	-
Demand deposit and financial assets at amortised cost	80,558	-	36,450	-
Financial liabilities at amortised cost	-	154,566	-	182,668
Other assets and liabilities	23	1,134	102	126
	130,440	155,700	69,670	182,794
Balances in Swiss francs-				
Cash	3,282	-	2,244	-
Demand deposit and financial assets at amortised cost	44,325	-	5,164	-
Financial liabilities at amortised cost	-	68,380	-	35,185
Other assets and liabilities	2	2	-	-
	47,609	68,382	7,408	35,185
Balances in Norwegian krone-				
Cash	1,118	-	1,028	-
Demand deposit and financial assets at amortised cost	2,287	-	3,336	-
Financial liabilities at amortised cost	-	9,635	-	11,529
	3,405	9,635	4,364	11,529
Balances in Swedish krone-				
Cash	1,032	-	654	-
Demand deposit and financial assets at amortised cost	3,587	-	8,764	-
Financial liabilities at amortised cost	-	11,419	-	24,662
Other assets and liabilities	-	1	-	-
	4,619	11,420	9,418	24,662
Balances in other currencies-				
Cash	11,456	-	7,216	-
Demand deposits and loans and receivables	23,266	-	21,252	-
Financial liabilities at amortised cost	-	52,730	-	54,336
Other assets and liabilities	-	26	-	-
	34,722	52,756	28,468	54,336
Total foreign currency balances	**786,387**	**2,545,970**	**549,084**	**1,877,253**

(*)Equivalent value calculated by applying the exchange rates at 31 December 2019 and 2018 respectively.

In addition to the currency positions recognised in the balance sheets at 31 December 2019 and 2018 shown in the preceding table, the Bank recognised various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheets positions for a correct understanding of the Bank's exposure to such risks (see Note 23 "Exposure to market risk").

2.7.2. Translation of foreign currency balances

Translation of foreign currency to the functional currency: foreign currency transactions performed by Bank companies are initially recognised in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

- Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.
- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.
- Incomes and expenses are translated at the exchange rate prevailing at the transaction date.

2.7.3. Exchange rates

The exchange rates used by the Bank in translating the foreign currency balances to euros for the purpose of preparing the financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.7.4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances, in accordance with the aforementioned methods, to the Bank's functional currency are generally recognised at their net amount under “Exchange Differences, Net” in the income statement, except for exchange differences arising on financial instruments designated at fair value through profit or loss, which are recognised, without distinguishing them from other changes in the instruments' fair value, under “Gains or Losses on Financial Assets and Liabilities Recognised at fair value through Profit or loss, Net” in the income statement, according to the category in which the instruments are classified.

However, exchange differences arising on non-monetary items measured at fair value through equity are recognised, where appropriate, in equity under “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss” in the balance sheet until they are realised. Exchange differences recognised in the Bank's equity are taken to the income statement when realised.

2.8. Recognition of income and expenses

The most significant accounting criteria used by the Bank to recognise its income and expenses are summarised as follows:

2.8.1. Interest income, interest expense, dividends and similar items

Interest income, interest expense and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies, are recognised as income when the Bank’s right to receive them arises.

2.8.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- The ones relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognised in the income statement when collected or paid.

- Those arising from transactions or services that are performed over a period of time such as fee and commission income for securities depository services are recognised in the income statement over the life of these transactions or services.

- Those relating to a single act are recognised in the income statement when the single act is carried out.

2.8.3. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

2.9. Offsetting

Asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, when, and only when, they arise from transactions in for which the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

For these purposes, the presentation in these financial statements, in accordance with Circular 4/2017, of financial assets net of impairment losses or measurement adjustments is not considered to be offsetting.

2.10. Financial guarantees and provisions for financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the Bank, etc.

In accordance with the Circular 4/2017 the financial guarantees provided by the Bank are treated as financial instruments.

Financial guarantees provided by the Bank, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost described in Note 2.3.1 above.

The provisions for financial guarantees are recognised under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the balance sheet (see Note 16 "Provisions"). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions or reversal of provisions" in the income statement.

2.11. Staff costs

2.11.1. Short-term remuneration

Short-term employee remuneration consists of monetary and non-monetary remuneration such as wages, salaries and social security contributions earned in the year and paid or payable to employees in the twelve months following the end of the reporting period.

Short-term employee remuneration is generally recognised as staff costs in the income statement for the period in which the employees have rendered their services. It is measured at the undiscounted amount payable for the services received, and it is recognised while the employees render their services at the Bank, as an accrued expense after deducting any amounts already paid.

2.11.2. Post-employment obligations

Under the Collective Agreement currently in force and some labour intern agreement, the Bank is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, widowhood and death of its serving employees.

The Bank's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Bank makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods.

Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans".

The Bank implemented the Cecabank Employee Pension Plan to fulfil its pension commitments with employees in accordance with the Law on Pension Plans and Funds and its enabling regulations.

The Management Entity for the "Cecabank Employee Pension Plan" is Caser Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. This pension plan is a member of Fondo de Pensiones Empleados Cecabank AD, Fondo de Pensiones and Fondo de Pensiones Empleados Cecabank PD, Fondo de Pensiones.

There are three subplans within the Cecabank Employee Pension Plan.

Subplan 1 is a defined benefit plan covering all contingencies and is in place for all members that became beneficiaries under the defined benefit system before 1 January 2019. All of the benefits are insured through an external insurance company and the policyholder is the Control Committee of the Cecabank Employee Pension Plan.

In 2010, the Control Committee of the CECA Employees' Pension Plan, pursuant to the obligations previously acquired, resolved to take out an insurance policy to cover the supplementary vested pension income payable to the beneficiaries of the pension plan of defined benefit. The policy is in line with the benefits payable to the group of beneficiaries of the pension plan in order to ensure these obligations are met.

Subplan 2 is a defined contribution plan for the retirement contingency and its members are CECA employees that joined after 30 May 1986 but before 11 November 2012, as well as the employees that joined Cecabank, S.A. starting on or after 12 November 2012. This subplan also covers members that joined CECA prior to 20 May 1086 when they chose to voluntarily remain in Subplan 2 in accordance with the Labour Agreement dated 27 January 2010.

This subplan is a defined benefit plan for death and disability contingencies affecting active employees. These defined benefits are insured through an insurance policy for which the policyholder is the Control Committee of the Cecabank Employee Pension plan.

Finally, Subplan 3 covers all employees that joined CECA before 29 May 1986 and were not entitled to join the early retirement plan established in the collective labour agreement for specific matters dated 2 April 2001 and requested, on a voluntary and irrevocable basis, to join the plan.

This subplan is a defined contribution plan for the retirement contingency and a defined benefit plan for death and disability contingencies affecting active employees. These defined benefits are insured through an insurance policy for which the policyholder is the Control Committee of the Cecabank Employee Pension plan.

During 2019 the Bank and all labour representatives reached a labour agreement under which there were relevant changes in the regulation of the Cecabank Employee Pension Plan. After that labour agreement was signed, the benefit system for the death and disability benefits was changed and it is no longer referenced to the pension recognised by Social Security and it now grants a capital amount based on the salary of each member.

Similarly, Subplan 1 is closed to the existing liability group existing at 31 December 2018 and active members that remained in the defined benefit subplan 1 were moved to subplan 3.

Finally, the contributions for the defined contribution retirement contingency have been improved, at least for the five-year period 2020-2024 for subplan 2, while a series of extraordinary contributions associated with length of service and compensation levels at the Bank for all members was recognised.

In addition, Cecabank has obtained several insurance policies to externalise pensions whether or not supplementary to the Cecabank Employee Pension Plan.

Note 35 "Administrative expenses – Staff Costs" presents additional information regarding these commitments, reconciliations, sensitivities and other information required by the legislation applicable to the Bank.

At 31 December 2019, the total amount of the Bank's accrued commitments for pensions yet to be invoked and commitments for invoked pensions totalled EUR 177,731 thousand (EUR 171,878 thousand at 31 December 2018), which are covered by the external pension plan whose fair value at 31 December 2019 is EUR 180,004 thousand (EUR 180,067 thousand at 31 December 2018), and therefore the Bank recorded EUR 2,273 thousand and EUR 8,189 thousand, respectively, under the caption "Net pension assets" in the heading "Other assets – Rest of other assets" in the accompanying balance sheets at 31 December 2019 and 2018 (see Notes 14.1 "Other assets" and 35 "Administrative expenses – Staff costs").

Recognition of defined benefit post-employment obligations

The accounting treatment of the defined benefit obligations is as follows:

a) The legal obligations assumed by the Bank are taken into consideration according to the formal terms and conditions of the plans.

b) The present value of the legal obligations is calculated at the reporting date by a qualified actuary, together with the fair value estimates of the plan assets.

c) The fair value of the plan assets, which, pursuant to the requirements established in the applicable legislation, meet this definition at the reporting date, is deducted from the present value of the obligations.

d) If the figure obtained in c) above is positive, it is recognised as a provision for defined benefit pension funds.

e) If the figure obtained in c) above is negative, it is recognised as "Other assets-Remainder of other assets". The Bank measures, where appropriate, the recognised asset at the lower of the following two values:

    i) The figure obtained in c) above, in absolute terms.

    ii) The present value of the cash flows available to the Bank, in the form of plan redemptions or reductions in future contributions to the plan.

f) Any changes in the recognised provision are recognised when they occur in line with d) above (or, where appropriate, the asset according to c) above) as follows:

    i) In the income statement: the cost of the services rendered by the employees, those referring to both the year in question and prior years not recognised in those years, the net interest on the provision, and the gain or loss arising upon settlement. When these amounts are to form part of the cost of an asset pursuant to applicable legislation, these amounts are recognised additionally as "other operating income".

    ii) In the statement of changes in equity: the new measurements of the provision as a result of the actuarial gains and losses, of the return on any plan assets not included in the net interest on the provision, and changes in the present value of the asset as a result of the changes in the present of the cash flows available to the entity, which are not included in the net interest on the provision. The amounts recognised in the statement of changes in equity should not be reclassified to the income statement in a future year.

As regards the preceding paragraph, it should be noted that due to application of the regulatory changes in the legislation applicable to the Bank contained in Bank of Spain Circular 5/2013, since 2013, the actuarial gains and losses arising on the measurement of the defined benefit pension obligations have been recognised by the Bank in the period in which they arise with a charge or credit, as applicable, to "Accumulated Other Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss" in the accompanying balance sheets.

The defined contribution obligations are generally recognised at the amount of the contributions made by the Bank in the year in exchange for the services rendered by employees in the same period and are recognised as an expense for the year. In 2019 the portion of the accrued expense for the contributions to the external pension fund relating to defined contribution obligations amounted to EUR 714 thousand (2018: EUR 698 thousand), and this amount was recognised under "Administrative Expenses - Staff Costs" in the income statement. In addition, in 2019 EUR 0 thousand were reimbursed relating to the insurance policy of an employee who left the Bank's employ (2018: EUR 3 thousand) (see Note 35 "Administrative expenses – Staff costs").

There are no active recipients of the defined benefits at the end of 2019 since they were moved to defined contributions (Subplan 3) on 1 January 2019.

Furthermore, contributions to the pension plan in excess of the current legal and tax ceilings are covered by two insurance policies taken out with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser") and no premium accrued or was paid in 2019 and 2018.

Additionally, the premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totalled EUR 244 thousand in financial year 2019 (2018: EUR 181 thousand), and this amount was recognised under "Administrative Expenses - Staff Costs" in the income statement (see Note 35).

2.11.3. Other long-term benefits

2.11.3.1. Early retirements

Through several agreements entered into in previous years by the Bank and by CECA (to which the Bank was subrogated by virtue of the spin-off of CECA's activity to the Bank as indicated in Note 1.1 above) and the Workplace Trade Union Branch and the representatives of the Works Council, various pre-retirement offers were made to the employees. The following paragraphs contain a summary of the main features of these agreements:

Pre-retirement agreements prior to 2013

On 7 April 2011, an agreement was entered into between the CECA, the Workplace Trade Union Branch and the representatives of the Workers' Committee, under which a Pre-Retirement Plan was established for all employees who at 31 December 2011 were at least 55 years of age and had been in the CECA employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 13 May 2011. As a result of the spin-off mentioned in section 1.1, the Bank was subrogated to these obligations.

25 June 2012, an agreement additional to the one mentioned in the previous paragraph was entered into between the entity, the Workplace Trade Union Branch and the representatives of the Works Council, under which a Pre-Retirement Plan was established for all employees who at 31 December 2012 were at least 53 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 20 July 2012. This agreement also includes other measures such as termination benefits for the group of employees not included in the pre-retirement plans mentioned above (for which the deadline for participating was 30 September 2012), unpaid leave and reduced working hours (the deadline for participating was 30 October 2012).

Pre-retirement agreements in 2013

Also, on 29 October 2013, another agreement was entered into between the Bank, the Workplace Trade Union Branch and the representatives of the Works Council, to extend the agreement entered into on 25 June 2012 for a maximum of 129 employees who at 31 December 2013 were at least 50 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 12 November 2013. 54 employees availed themselves of this offer. The pre-retirements are taking effect between 1 December 2013 and 31 March 2014. The period of pre-retirement begins on the date of termination of the employment contract and ends on the date on which the employee reaches 63 years of age, with a limit of nine years from the pre-retirement date, whichever occurs first.

The amount receivable by the employee during pre-retirement is equal to 75% of his/her annual gross fixed remuneration while in employment, with a maximum annual benefit limit of EUR 150,000 and a minimum annual limit of EUR 27,119. At the discretion of the pre-retired employee, this benefit may be received either in a single lump sum payment or in 14 monthly payments up until the age established in the Agreement. In addition, regardless of the chosen form of payment, the employees who avail themselves of this offer are entitled to receive a gross incentive of EUR 16,000 in a single payment. Also, any employees who would have been paid a 25-year service bonus had they remained in the entity's employ until 31 March 2014 continue to be entitled to receive this bonus.

For the participants of pension sub-plans two and three integrated in "Cecabank employees Pensions plan", the Bank will continue to make contributions to the employee pension plan and the policies provided for in the insurance protocol relating to this plan, where appropriate, solely for retirement cover. The amount of this contribution will be the same as that made in the year immediately prior to the pre-retirement and will be made until the employee reaches 63 years of age, with a limit of nine years from the pre-retirement date, whichever occurs first. In particular, the participants of sub-plan three will continue to be entitled to the contributions provided for in the Caser policy, for past service, until the age of 65. In the case of the employees who are participants in defined benefit sub-plan one, for retirement cover, the Bank will continue to make the contributions required to maintain coverage of the retirement benefit established by the Bank until the date on which pre-retirement benefits cease to be paid, and the benefits received in the twelve months prior to retirement. Alternatively, participants in sub-plan one who take pre-retirement pursuant to the pre-retirement plan may transfer their consolidated rights in the plan at the pre-retirement date to sub-plan three and convert the benefit regime into a defined contribution regime. For these participants, contributions are not payable to the Caser policy provided for in the insurance protocol of the Bank's Employees' Pension Plan.

Social Security Special Agreement payments are payable by the employees, although the Bank will pay these amounts into the employees' salary until they meet the established age requirements and limits. The Special Agreement will be entered into at the employees' maximum contribution rate on the date immediately preceding the retirement date, with a maximum limit of the contribution base that would have been applicable to the employees had they remained in the Bank's employ.

Pre-retirement agreements in 2015

On 18 December 2015, the Board of Directors of the Bank approved a formal pre-retirement plan for certain employees of the Bank who met certain requirements, and this fact was communicated to all the employees on 23 December 2015 by the Works Council.

This plan was formalised in a collective agreement signed in 2016 between the Bank, the Workplace Trade Union Branch and the representatives of the Works Council, using as a basis the pre-retirement plan of 29 October 2013, which established a three-year period (2016-2018) for pre-retirements to take place. Employees aged 56 or over prior to 31 December 2018 with at least ten years' service at the date of departure from the Bank can avail themselves of the plan.

The amount receivable by the employee during pre-retirement is equal to 75% of his/her annual gross fixed remuneration while in employment, with a maximum annual benefit limit of EUR 150,000 and a minimum annual limit of EUR 27,119. At the discretion of the pre-retired employee, this benefit may be received either in a single lump sum payment or in 14 monthly payments up until the age established in the Agreement.

With regard to the accounting criteria applied to these aforementioned pre-retirement obligations, it should be noted that they are the same as those explained in Note 2.11.2 for the defined benefit post-employment obligations, except for the fact that the actuarial gains and losses are recognised directly in the Bank's income statement in the year in which they are disclosed.

The obligations in respect of future salaries, future social security costs and study aids relating to early retirees corresponding to commitments given in the preceding paragraphs as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 41,656 thousand (EUR 49,710 thousand at 31 December 2018), which was recognised under "Provisions - Other long-term employee benefits" in the balance sheet (see Notes 16 and 35) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011, 25 June 2012 and 29 October 2013 and 18 December 2015. At 31 December 2019 and 2018 this provision covered the full amount of the Bank's early retirement obligations at those dates.

Note 35 to these notes to the financial statements includes additional information relating to these obligations.

2.11.3.2. Death and disability

The commitments assumed by the Bank for death or disability of current employees for the period they remain active are included in the benefits covered by the Cecabank Employees` Pension Plan, in accordance with its rules and they are fully covered by a policy obtained by the Control Committee of the Pension Plan from an insurance company.

2.11.3.3. Long-service bonuses

The Bank has undertaken to pay a bonus to employees reaching 25 years of service at the Bank.

The amount paid in this connection at 2019 year-end was approximately EUR 16 thousand (2018 year-end: EUR 9 thousand) and is recognised under “Administrative Expenses - Staff Costs” in the accompanying income statements.

2.11.4. Termination benefits

Any termination benefits are recognised as a staff cost only when the Entity is demonstrably committed to terminating the employment relationship with an employee or group of employees.

The termination benefit expense charged to profit or loss in 2019, amounting to EUR 2,250 thousand, is recognised under “Administrative Expenses - Staff Costs” in the income statement (see Note 35). At 31 December 2018, 785 expense was recognised in this connection.

Also, the Bank has agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Bank, would be charged to the income statement when the decision to terminate the employment of the executive or director was made. .

Under current legislation, the Bank is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

2.11.5. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2008 and 2016 with the Bank's employees, employees are entitled to apply for mortgage loans from the Bank for a maximum period of 40 years and a variable interest rate, which will remain fixed during each natural semester.

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Bank implementing it, employees of the Bank may, in specific cases, apply for interest free advances and other “welfare” loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Bank to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan indicating the exceptional circumstances.

These loans are recognised at amortised cost under “financial assets at amortised cost - Loans and Advances to Customers” in the balance sheet.

2.12. Income tax

The income tax expense is recognised in the income statement, except when it results from a transaction recognised directly in the equity, in which case the income tax is also recognised in the Bank's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognised as a result of temporary differences and tax credit and tax loss carry forwards (see Note 20).

The Bank considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base expected to reverse in the future. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Bank to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Bank to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Bank considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognised.

The Bank only recognises deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carryforwards when the following conditions are met:

- If it is considered probable that the Bank will obtain sufficient future taxable profit against which the deferred tax assets can be utilised; or they are deferred tax assets that the Bank might in the future have the right to convert into credits receivable from the tax authorities pursuant to Article 130 of Spanish Income Tax Law 27/2014, of 27 November (called "monetizable tax assets"); and

- In the case of any deferred tax assets arising from tax loss carryforwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognised if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

The Bank files consolidated tax returns pursuant to Chapter VI of Title VII of Spanish Income Tax Law 27/2014, of 27 November, as part of tax group 0508/12, the parent of which is CECA. For each entity that files consolidated tax returns, the Group recognises the income tax expense that the entity would have had to pay if it had filed an individual tax return, adjusted for the tax losses generated by each entity from which other Group entities benefit, taking into consideration the consolidated tax adjustments to be made.

2.13. Property, plant and equipment

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Bank for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognised at acquisition cost in the balance sheet as it is defined in the Circular 4/2017, less:

- The related accumulated depreciation, and
- Any estimated impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated by the straight-line method on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The annual provisions of tangible asset depreciation charge is recognised under “Depreciation and Amortisation” in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Property	2% to 4%
Furniture and office equipment	10% to 15%
Computer hardware	15% to 25%
Fixtures	8% to 12%
Transport equipment	16%

The Bank assesses at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to “Impairment or Reversal of Impairment on Non-Financial Assets” in the income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Bank recognises the reversal of the impairment loss recognised in prior periods with the related credit to “Impairment or Reversal of Impairment on Non-Financial Assets” in the income statement and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least once a year with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense under “Administrative Expenses – Other General Administrative Expenses” in the income statement in the year in which they are incurred.

Assets for own use that cease to be used for that purpose and for which management has prepared a sales plan that is expected to be executed within twelve months and meet the other requirements established in Bank of Spain Circular 4/2017 are classified as non-current assets held for sale and begin to be measured in accordance with the criteria indicated in Note 2.16.

2.13.2. Investment property

“Property, plant and equipment - Investment Property” in the balance sheet reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation as a consequence of the future increases at their respective market prices.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only intangible assets whose cost can be estimated reasonably objectively and from which the Bank considers it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

The annual intangible asset amortisation charge is recognised under chapter “Amortisation” in the income statement.

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognised in the balance sheet at acquisition or production cost, less the related accumulated amortisation and any accumulated impairment losses.

"Intangible Assets - Other Intangible Assets" includes, primarily, the acquisition cost, net of accumulated amortisation and when applicable impairment.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives, which range from three to ten years for computer software, depending on the asset concerned.

For their part, the management rights of the depository business recognised as intangible assets are amortised over the term of the contracts in which they are acquired, using the straight-line method.

The Bank assesses at the reporting date whether there is any internal or external indication that an intangible asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future amortisation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated). This reduction of the carrying amount of intangible assets is recognised, if necessary, with a charge to “Impairment or Reversal of Impairment on Non-Financial Assets” in the income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1).

2.15. Provisions and contingent liabilities

The Bank’s financial statements include all the material provisions, if any, required to cover certain risks to which the Bank is exposed as a result of its business activity and which are certain as to their nature but uncertain as to their amount and/or timing. Contingent liabilities are not recognised in the financial statements, but rather are disclosed, if there.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed its case and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognised with a charge or credit, respectively, to "Provisions or reversal of provisions" chapter in the income statement.

2.15.1. Litigation and/ or claims in process

At the end of 2019 certain litigation and claims were in process against the Bank arising from the ordinary course of its operations. The Bank's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

2.16. Non-current assets and Disposal Groups Classified as Held for Sale

"Non-Current Assets Held for Sale and Disposal Groups Classified as Held for Sale" in the balance sheet includes the carrying amount of items - individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations") - which, because of their nature, are estimated to have a realisation or recovery period exceeding one year, but are earmarked for disposal by the Bank and whose sale in their present condition is highly probable to be completed within one year from the date of the financial statements.

Investments in associates or joint ventures that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably, be recovered through the proceeds from their disposal rather than from continuing use.

Specifically, property or other non-current assets received by the Bank as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the Bank has decided use them and classify them as investment property (see Note 2.13.2).

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortisable by nature are not depreciated or amortised during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Bank adjusts the carrying amount of the assets by the amount of the excess with a charge to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement. If the fair value of such assets subsequently increases, the Bank reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement.

The gains or losses arising on the sale of non-current assets held for sale are presented under "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.17. Cash flow statements

The following terms are used in the cash flow statements with the meanings specified:

- **Cash flows:** inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- **Operating activities:** the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.

- **Investing activities:** the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as Property, plant and equipment, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as financial assets at fair value through other comprehensive income which are strategic investments if any.

- **Financing activities:** includes the cash flows from activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of "Cash, Cash Balances at Central Banks and other demand deposits" on the asset side of the balance sheet, disregarding any impairment losses, was considered to be "cash and cash equivalents".

2.18. Statement of changes in equity

The statement of changes in equity presented in these financial statements shows the total changes therein in equity during the year. This information is disclosed to turn in two statements: the statement of comprehensive income and the statement of changes in equity. The following explains the main features of the information contained in both parts of the statement:

2.18.1. Statement of recognised income and expense

The statement of recognised income and expense presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the income statement for the year and the other income and expenses recognised, in accordance with current regulations, directly in equity, making a distinction among the latter, in turn, between items that may be reclassified to the income statement, pursuant to applicable legislation, and those that may not.

Accordingly, this statement presents:

a) Profit for the year.

b) The net amount of income and expense recognised that will not be reclassified into income.

c) The net amount of income and expenses recognised that can be reclassified into income.

d) The total of income and expense recognised, calculated as the sum of (a+b+c).

Changes in income and expenses recognised in equity as items that can be reclassified to income are broken down as follows:

a) Measurement gains or losses taken to equity: includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of assets or liabilities or are reclassified to another line item.

b) Amounts transferred to the income statement: includes the amount of the restatement gains and losses previously recognised in equity, albeit in the same year, which are recognised in the income statement.

c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the restatement gains and losses previously recognised in equity, albeit in the same year, which are recognised in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: includes the amount of the transfers made in the year between measurement adjustment items in accordance with current regulations.

The amounts of these items are presented gross, and the corresponding income tax is included in a separate line item both at the end of the items that may be reclassified to profit or loss and at the end of those that will not.

2.18.2. Statement of changes in total equity

The statement of changes in total equity presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes in the year are grouped together on the basis of their nature into the following items:

a) Effects of corrections of errors and changes in accounting policies: this category includes the adjustments to equity arising as a result of the retrospective restatement of the financial statements, making a distinction between the adjustments that relate to changes in accounting policies and those relating to corrections of errors.

b) Total comprehensive income for the year: this category includes the amount of the line item with the same name in the statement of recognised income and expense relating to the same date.

c) Other changes in equity: includes the changes recognised directly in equity relating to increases and reductions in capital or other equity instruments (including the expenses incurred in such transactions), the distribution of dividends or shareholder remuneration, the reclassification of financial instruments from equity to liabilities or vice-versa, transfers among equity items which, due to their nature, were not included in other line items, increases or decreases in equity resulting from business combinations, share-based payments, and any other increase or decrease in equity that cannot be included in the aforementioned categories.

3. Distribution of the Bank's profit

The proposal for the distribution of the Bank's net profit for 2019, which the Board of Directors will propose to the General Shareholders' Meeting for approval, is as follows (the balances for 2018 are presented exclusively for comparative purposes):

Thousands of euros

	2019	2018
Voluntary Reserve	30,274	42,541
Dividends	14,911	20,953
Dividends	**45,185**	**63,494**

4. Remuneration of directors and senior executives

4.1. Remuneration of the Board of Directors

The members of the Bank's Board of Directors receive an attendance fee for attending meetings of the Board and its support committees, the detail of which for 2019 and 2018 is shown in the following table:

	Thousands of euros	
	2019	**2018**
Azuaga Moreno, Manuel	23	29
Cánovas Páez, Joaquín	-	2
Carbó Valverde, Santiago	52	52
García Lurueña, Francisco Javier	31	39
Gómez de Miguel, José Manuel	14	56
Iglesias Ruiz, Víctor Manuel	21	29
Méndez Álvarez-Cedrón, José María	23	23
Motellón García, Carmen	47	46
Pano Riera, Javier	27	10
Ruano Mochales, Jesús	35	29
Salaverría Monfort, Julia	52	56
Sarro Álvarez, María del Mar	52	43
	377	**414**

The aforementioned attendance fees for 2019 relating to the participation of an executive of Bankia, S.A. on the Board of Directors of Cecabank, S.A. amounted to EUR 29 thousand and were paid directly to that entity (2018: EUR 31 thousand).

Note 40 “Related party transactions” details the Bank’s other balances with its directors and persons related to them.

4.2. Remuneration of the bank´s senior executives and of members of the Board of Directors in their capacity as executives of the Bank

For the purposes of the preparation of these financial statements, the Bank's senior executives were considered to be the members of the Management Committee, which comprised 8 members at 31 December 2019 and 2018.

The remuneration earned by the senior executives and the members of the Board of Directors in their capacity as executives of the Bank totalled EUR 2,232 thousand in 2019, of which EUR 2,019 thousand related to short-term remuneration for 2019, including the amount that will be paid by Phantom Shares (see note 35) and EUR 213 thousand related to post-employment benefits (EUR 2,465 thousand in 2018, of which EUR 2,301 thousand related to short-term remuneration and EUR 164 thousand to post-employment benefits).

The amount of the consolidated pension rights for senior management and the members of the Board of Directors in their capacity as Bank executives at 31 December 2019 totals EUR 2,720 thousand (EUR 3,584 thousand at 31 December 2018).

The Bank has taken out accident insurance for directors and third-party liability insurance for directors and senior executives under the customary terms and conditions for these insurance policies. The premium for 2019 amounted to EUR 156 thousand (2018: EUR 145 thousand).

Note 40 to these financial statements provides disclosures of the amounts of the demand deposits held with the Bank by senior executives and Board members and of the loans granted to them by the Bank.

4.3. Transparency obligations

Article 229 of the Consolidated Spanish Limited Liability Companies Law establishes that the directors must disclose any direct or indirect conflict they might have with the interests of the company in which they discharge their duties as directors.

In accordance with the provisions of the Bank's Administrators in their stated declarations, as defined in article 229 and following of the Capital Companies Law, they have communicated to the Board of Directors situations of direct or indirect conflict, which they or persons related to them may have. Specifically, during the 2019 financial year, on five occasions, some Administrators of Cecabank, S.A. abstained from participating in the deliberation and / or voting of matters related to the extension of depository agreements, with agreements for the acquisition of depository businesses and related to the participation in the capital of a company. Likewise, during the 2018 financial year, the Bank's Administrators, as defined in the Capital Companies Law, communicated to the Board of Directors a situation of conflict, direct or indirect, that they or persons related to them may have with the Bank's interest.

5. Cash, Cash Balances at Central Banks and other demand deposits

The breakdown of the balance of “Cash, Cash Balances at Central Banks and other demand deposits” in the balances sheets at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Cash in euro	20,539	15,329
Cash in foreign currency (Note 2,7)	133,373	103,686
Cash balances at central banks (Note 1.10) (*)	2,009,191	3,046,432
Other sight deposits in euro	18,006	35,805
Other sight deposits	86,998	65,825
	2,268,107	**3,267,077**

(*)This balance corresponds entirely to the balance in cash at the Bank of Spain.

6. Financial assets and liabilities at fair value through profit or loss

6.1. Financial instruments held for trading

6.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of “Financial Assets/Liabilities Held for Trading” in the balances sheets at 31 December 2019 and 2018:

Thousands of euros

	Debtor balances		Debtor balances	
	2019	2018	2019	2018
Debt securities	**488,446**	**752,696**	**-**	**-**
Government securities	168,749	409,951	-	-
Treasury Bills	-	-	-	-
Other public entities	109,487	9,774	-	-
Non-resident public administrations	48,696	117,328	-	-
Spanish credit institutions	46,237	44,222	-	-
Credit institutions not residing in Spain	-	81,503	-	-
Private sector (Spain)	83,873	8,501	-	-
Private sector (rest of the world)	31,404	81,417	-	-
Doubtful assets	-	-	-	-
Equity instruments	**379,531**	**240,744**	**-**	**-**
Shares listed on the Spanish Market	377,213	238,711	-	-
Shares listed on markets in the rest of the world	2,318	2,033	-	-
Derivatives held for trading-	**981,563**	**926,943**	**1,021,166**	**967,023**
Derivatives traded on organised markets	32	94	22	755
Derivatives not traded on organised markets	981,531	926,849	1,021,144	966,268
Derivatives not traded on organised markets	**-**	**-**	**190,580**	**409,834**
	1,849,540	**1,920,383**	**1,211,746**	**1,376,857**

Note 22 provides information on the credit risk assumed by the Bank in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 23 and 24 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category.

Note 21 provides information on the fair value of the financial instruments included in this category. Note 26 includes information on the concentration of risk relating to the financial assets held for trading. Note 25 shows information on the exposure to interest rate risk.

6.1.2. Trading derivatives (assets and liabilities)

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Bank and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2019 and 2018:

Thousands of euros

	2019			2018		
	Fair Value			Fair Value		
	Asset balances	Liability balances	Notional amount	Asset balances	Liability balances	Notional amount
Interest rate risk	934,299	976,286	23,373,357	877,672	927,813	28,874,217
Foreign currency risk	47,232	42,099	3,508,354	49,177	36,452	6,735,465
Share price risk	32	647	436,107	94	2,758	378,705
Credit risk	-	2,134	75,000	-	-	-
	981,563	**1,021,166**	**27,392,818**	**926,943**	**967,023**	**35,988,387**

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Bank for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

6.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the balance sheets at 31 December 2019 and 2018, is as follows:

		Thousands of euros
	2019	**2018**
Classification:		
For securities lending-		
Equity instruments	-	11
Overdrafts on disposals-repurchase agreement		
Debt securities	190,580	409,823
	190,580	**409,834**

“Short Positions - Short Sales – Debt Instruments” in the foregoing table includes the fair value of the Bank’s debt instruments purchased under repurchase agreements and, therefore, under non-optional resale as such not recognised on the asset side of the balance sheet, which have been sold and will be repurchased by the Bank before maturity of the repurchase agreement in which they are used as collateral, in order for the Bank to return them to his owner at the maturity date.

6.2. Non trading financial asset mandatorily at fair value through profit or loss

The detail, by nature, of the financial assets included in “Non trading financial asset mandatorily at fair value through profit or loss” in the balance sheets at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Equity instruments	**8,497**	**19,093**
Shares listed in organised markets	1,087	4,918
Shares listed in rest of the world markets	-	225
Unquoted shares	7,410	13,950
Debt securities	**30,117**	**41,320**
Private Sector (rest of the world)	30,117	41,320
Loans and advances	**403**	**-**
	39,017	**60,413**

Note 22 includes information on the Bank’s exposure to credit risk at 31 December 2019 and 2018 associated with these financial instruments other than equity instruments .

Note 21 includes information on the fair value of these financial instruments at 31 December 2019 and 2018. Note 23 provides information on the exposure to market risk of these financial instruments. Note 25 includes information about the exposure to interest rates.

Note 24 contains information on the liquidity risk associated with the financial instruments owned by the Bank at 31 December 2019 and 2018.

Note 26 includes information on the concentration risk relating to these financial instruments at 31 December 2019 and 2018.

6.3. Financial assets and liabilities designated at fair value through profit or loss

At 31 December 2019 and 2018 there are no assets or liabilities in this heading.

7. Financial assets at fair value through other comprehensive income

Following is a detail of the balances of "Financial assets at fair value through other comprehensive income" in the balance sheets at 31 December 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Debt securities		
Securities - Spanish Public Administrations	518,171	307,951
Treasury Bills	-	-
Government debt	518,171	307,951
Non-resident public institutions	911,631	953,081
Spanish credit institutions	55,070	29,897
Credit institutions not residing in Spain	153,701	39,988
Private sector (Spain)	260,504	88,901
Private sector (rest of the world)	145,413	43,024
	2,044,490	**1,462,842**
Measurement adjustments-		
Accrued interest	9,340	8,476
Results due to measurement and other	5,761	(2,029)
Results due to measurement and other	(1,399)	(611)
	13,702	5,836
	2,058,192	**1,468,678**
Equity instruments-		
Shares not traded on organised markets	23,391	23,391
	23,391	23,391
Measurement adjustments-		
Results due to measurement and other	8,379	4,405
Results due to measurement and other	(17,501)	(17,501)
	(9,122)	(13,096)
	14,269	**10,295**
	2,072,461	**1,478,973**

Note 21 contains certain information on the fair value of the financial instruments included in this category.

Note 22 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 23 shows certain information on the market risk to which the Bank is exposed in relation to these financial assets. Note 25 discloses certain information on interest rate risk.

Note 24 shows certain information on the Bank´s exposure to liquidity risk. Note 26 shows information on the concentration risk associated with these financial assets.

8. Financial assets at amortised cost

Following is a detail of the financial assets included in “Loans and Receivables” in the balance sheets at 31 December 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Debt instruments-		
Debt securities issued by Spanish Public Administrations	284,299	-
Debt securities issued by entities other than Spanish Public Administrations	24,277	23,150
Doubtful assets	-	-
	308,576	23,150
Measurement adjustments-		
Impairment losses (Notes 22.8 and 38)	(2,408)	(1,743)
Accrued interest	1,532	96
	(876)	(1,647)
	307,700	**21,503**
Loans and prepayments to credit institutions-		
Reverse repurchase agreements	3,214,725	1,238,922
Other term loans	45,052	11,709
Advances different from loans	778,749	674,139
Non-performing assets	739	34
	4,039,265	1,924,804
Measurement adjustments-		
Impairment losses (Notes 22.8 and 38)	(403)	(75)
Accrued interest	(409)	(281)
	(812)	(356)
	4,038,453	**1,924,448**
Loans and prepayments to customers-		
On demand	3,831	10,750
Credit card debt	651	591
Trade receivables	-	15,991
Reverse repurchase agreements	89,927	108,220
Other term loans	460,160	141,912
Advances different from loans	161,021	258,932
Non-performing assets	450	870
	716,040	537,265
Measurement adjustments-		
Impairment losses (Notes 22.8 and 38)	(299)	(575)
Acquisition Premium	10,707	12,772
Accrued interest	1,753	1,899
	12,161	14,096
	728,201	**551,361**
	5,074,354	**2,497,312**

“Financial Assets at Amortised Cost - Loans and Advances to Customers” includes mortgage loans to customers with a carrying amount of EUR 42,105 thousand at 31 December 2019 (31 December 2018: EUR 44,821 thousand).

Note 22 provides certain relevant information on the credit risk, at 31 December 2019 and 2018, of the financial assets included in this category. In Note 21 there is information about the fair value of included in this category of financial assets at 31 December 2019 and 2018.

Note 24 contains information on the liquidity risk associated with the Bank’s financial instruments at 31 December 2019 and 2018.

Note 25 includes information on the interest rate risk. Note 26 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2019 and 2018.

9. Hedging derivatives – Fair value hedges

The Bank has entered into financial derivatives transactions with various counterparties of recognised creditworthiness which are considered fair value and cash flow hedges of certain balance sheet positions against fluctuations in market interest rates and also to comply with the requirements of the applicable regulation.

The Bank's hedged balance sheet positions relate to fixed-rate debt instruments (guaranteed issues, government bonds and treasury bills). These securities are issued by the Spanish government, Spanish private sector financial institutions and other resident sectors.

Given that the positions giving rise to the risk are long-term transactions tied to a fixed interest rate, the main aim of the hedge is to change the returns of the hedged items from fixed to floating and, accordingly, their performance to changes in market interest rates. To this end, the Bank uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Bank uses call money swaps to hedge each group of debt instruments, which are grouped on the basis of their sensitivity to changes in interest rates, and documents the related efficiency analyses of the hedges to verify that, at inception and throughout the life of these hedges, the Bank can expect, prospectively, that the changes in fair value of the hedged items attributable to the hedged risk will be almost fully offset by changes in the fair value of the hedging instruments and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item. The aforementioned hedges are highly effective.

Following is a detail, by instrument, of the fair value of the hedging instruments in fair value hedges:

Thousands of euros

	2019		2018	
	Asset balances	Liability balances	Asset balances	Liability balances
Hedged instrument				
Financial assets at fair value through other comprehensive income	12,784	13,463	17	6,898
	12,784	**13,463**	**17**	**6,898**

Gains/losses on hedging instruments and hedged items are recognised under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement of the Bank (see Note 33).

The 21 Note discloses information on the fair value of these hedging derivatives at 31 December 2019 and 2018. Note 22 includes certain information on the credit risk associated with these derivatives at 31 December 2019 and 2018.

10. Non-current assets and disposal groups classified as held for sale

The breakdown of the balance of "Non-Current Assets Held and Disposal Groups Classified as Held for Sale" in the balance sheets at 31 December 2019 and 2018 is as follows:

Thousands of euros

	2019	2018
Real properties	3,002	2,772
Equity instruments	-	1,019
	3,002	**3,791**

The changes in 2019 and 2018 in the items included in this heading in the balance sheets, and the related impairment losses, were as follows:

	Thousands of euros	
	2019	**2018**
Cost:		
Balances at 1 January	16,416	16,412
Additions	11	-
Disposals	(11,543)	-
Transfers	29	4
Balances at 31 December	**4,913**	**16,416**
Impairment losses:		
Balances at 1 January	(12,625)	(12,625)
Additions	-	-
Disposals	10,716	-
Transfers	(2)	-
Balances at 31 December	**(1,911)**	**(12,625)**
Net Balances at 31 December	**3,002**	**3,791**

Properties

The Bank continues to actively manage the items included in this heading and those that were initially recorded more than one year ago (consisting entirely of properties) in order to proceed with their sale in the short-term. Although the real estate market situation in Spain makes it difficult to dispose of these assets, the Bank's management of them is intended to procure their sale in the short-term and it has reasonable expectations in this respect. Accordingly, since all of the other requirements established in Circular 4/2017 are met, they continue to be classified and measured as non-current assets held for sale..

Equity instruments

Shareholders at a general meeting of Ahorro Corporación, S.A. held on 18 December 2019 approved the final liquidation balance sheet and the net liquidation amount receivable by the Bank was EUR 2,163 thousand. Since the Bank held a 14.44% interest in the share capital of Ahorro Corporación, S.A. at 31 December 2018, the carrying amount of which was EUR 1,015 thousand, the impact on profit/(loss) was EUR 837 thousand. This amount was recognised under profit/(loss) from non-current assets and disposal groups of assets classified as held for sale that cannot be classified as discontinued operations. There is an outstanding receivables in the amount of EUR 311 thousand subject to certain milestones and compliance requirements.

The company CEA Trade Services limited, which was wholly owned by the Bank, was effectively liquidated on 4 March 2019. As a result of the liquidation situation affecting this investee company, in 2018 the Bank reclassified its assets and liabilities to the heading "Non-current assets and disposal groups of assets classified as held-for-sale" in the consolidated balance sheet.

11. Investments in subsidiaries, joint ventures and associates

Following is a detail of the investments held by the Bank in subsidiaries and jointly controlled entities at 31 December 2019 and 2018:

			Book Value	
			Thousands of euros	
Entity	**Location**	**Ownership Percentage**	**2019**	**2018**
Subsidiaries:				
Trionis, S.C.R.L.	Brussels	78.62%	312	312
			312	**312**

cecabank

Appendix I includes certain information on this investee.

At 31 December 2019 and 2018, the Bank did not hold investments in jointly-controlled entities or associates.

At 31 December 2019 and 2018, and during those years, there were no of the holdings held by Cecabank, S.A.

The company CEA Trade Services limited, which was wholly owned by the Bank, was effectively liquidated on 4 December 2019. The liquidation proceeds, amounting to EUR 10 thousand, are recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the income statement for 2019.

12. Property, plant and equipment

The changes in 2019 and 2018 in "Property, plant and equipment" in the balance sheets were as follow:

Thousands of euros

	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2018	71,036	23,567	12,105	2,249	108,957
Additions	-	839	988	-	1,827
Disposals	-	(301)	(212)	-	(513)
Transfers	(8,656)	-	-	8,656	-
Balance at 31 December 2018	**62,380**	**24,105**	**12,881**	**10,905**	**110,271**
Additions	-	121	2,013	-	2,134
Disposals	-	(776)	(322)	-	(1,098)
Transfers	-	(29)	-	-	(29)
NIIF 16, first application	1,993	4	1,285	-	3,282
Balance at 31 December 2019	**64,373**	**23,425**	**15,857**	**10,905**	**114,560**
Accumulated depreciation:					
Balance at 1 January 2018	(26,937)	(19,812)	(9,323)	(472)	(56,544)
Charge for the year (Note 39)	(858)	(865)	(1,209)	(123)	(3,055)
Disposals	-	301	202	-	503
Transfers	3,122	-	-	(3,122)	-
Balance at 31 December 2018	**(24,673)**	**(20,376)**	**(10,330)**	**(3,717)**	**(59,096)**
Charge for the year (Note 39)	(825)	(918)	(1,422)	(183)	(3,348)
Disposals	-	772	321	-	1,093
Transfers	-	2	-	-	2
NIIF 16, first application	(396)	-	(188)	-	(584)
Balance at 31 December 2019	**(25,894)**	**(20,520)**	**(11,619)**	**(3,900)**	**(61,933)**
Property, plant and equipment, net:					
Net balance at 31 December 2018	**37,707**	**3,729**	**2,551**	**7,188**	**51,175**
Net balance at 31 December 2019	**38,479**	**2,905**	**4,238**	**7,005**	**52,627**

At 31 December 2019 and 2018, property, plant and equipment for own use totalling (gross) approximately EUR 26,884 and 25,179 thousand had been depreciated in full.

Either at 31 December 2019 or at 31 December 2018, the Property, plant and equipment owned by the Bank were not impaired or there were no changes in this connection in those years.

In 2019 the rental income earned from investment property owned by the Bank amounted to EUR 1,338 thousand (2018: EUR 1,279 thousand) (see Note 34).

In 2019, the losses on disposals arising under "Property, Plant and Equipment – For Own Use" totalled EUR 4 thousand, recognised under "Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net" in the income statement for 2019 (2018: income of EUR 2 thousand).

The Company has obtained insurance policies to cover its property, plant and equipment.

13. Intangible assets

13.1. Other intangible assets

The balance of this heading includes basically rights arising from the acquisition of certain depository businesses and custody of third party securities relating to collective investment undertakings and pension funds, as well as, to a lesser extent, computer software developed by the Bank, which is amortised as indicated in Note 2.14 above. The detail of “Other Intangible Assets” in the balance sheets as at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Intangible assets with finite useful life Less	336,894	318,110
Accumulated amortisation	(141,560)	(112,708)
Total net	**195,334**	**205,402**

At 31 December 2018 the balance of fully amortised intangible assets in use was EUR 5,741 thousand. There were no fully amortised intangible assets at 31 December 2019 due to their write-off from the balance sheet.

The changes in 2019 and 2018 in the balance sheets were as follows:

	Thousands of euros
Cost:	
Balance at 1 January 2018	320,062
Additions and transfers	19,687
Disposals	(21,639)
Balance at 31 December 2018	**318,110**
Additions and transfers	30,295
Disposals and other movements	(11,511)
Balance at 31 December 2019	**336,894**
Accumulated amortisation:	
Balance at 1 January 2018	(91,198)
Charge for the year (Note 39)	(43,149)
Disposals and other movements	21,639
Balance at 31 December 2018	**(112,708)**
Charge for the year (Note 39)	(40,365)
Disposals and other movements	11,513
Balance at 31 December 2019	**(141,560)**
Intangible assets, net:	
Net balance at 31 December 2018	**205,402**
Net balance at 31 December 2019	**195,334**

The additions in 2019 and 2018 in the foregoing table relate mainly to the capitalisation of the cost of the new depository contracts that arose following the renewal of the rights and obligations resulting from businesses acquired in prior years for the management of depository and custody services for securities entrusted by third parties, as well as to the variable payments made as a result of the achievement of certain contractual objectives and to the inclusion in the cost of guaranteed amounts originating from those businesses. Parallel to this capitalisation, in 2019 and 2018 the Bank derecognised the amortisation and impairment losses associated with the contracts that were renewed or derecognised, which had been amortised in full.

At the time of each accounting closing, the Bank determines whether or not there are any indications that the net value of its intangible assets (deposit and custody contracts) exceeds their recoverable value. If so, the carrying amount of the asset concerned is reduced to the recoverable value and future amortisation charges are adjusted in proportion to the adjusted carrying amount and the new remaining useful life, if a new estimate is required. The criteria for recognising the impairment of these assets and, if appropriate, any recovery of impairment losses recognised in prior years, are based on actual and projected equity, revenue, cost and variable payment figures, as well as the fixed price paid by Cecabank:

- The actual amount on deposit at the closing in December of the year being analysed and then the equity figures are taken into consideration based on the revenue estimated in the business plan for each transaction.

- Revenue is obtained from the business plan, which includes the accumulated amount of depository fees effectively collected by Cecabank in the year being analysed and reflecting the expected income based on the business plan.

- Variable payments relate to the amounts paid to customers in accordance with the revenue effectively obtained each year and the projections indicate the maximum amounts payable in the event that the business plan revenue projections are met, as is stipulated in the contracts.

- The net present value is calculated taking into consideration the estimated future cash flows that will be received by Cecabank up until the end of the transaction, using a discount rate in line with Cecabank's ROE before taxes.

14. Other assets and liabilities

14.1. Other assets

The breakdown of the balance of "Other Assets" and "Other Liabilities" in the balance sheets at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Other assets-		
Prepayments-		
Fees and commissions receivable	12,443	11,371
Non-accrued expenses	179	238
Other prepayments	959	1,445
Other assets-		
Transactions in transit	40,493	23,120
Nets Assets Post-Employment plans (Notes 2.11.2 & 35)	2,273	8,189
Other	9,224	12,368
	65,571	**56,731**

"Prepayments and Accrued Income – Fees and Commissions Receivable" includes the accrued commissions receivable by the Bank in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

"Other Assets - Transactions in Transit" and "Other liabilities – Transactions in Transit" mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions.

14.2. Other liabilities

The composition of the balance in the balance sheets at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Accrued expenses and deferred income-		
Fees and commissions payable	1,938	1,387
Accrued expenses	32,479	47,222
Accrued revenues	726	808
Other liabilities-		
Transactions in transit	20,549	53,815
Other	3,974	1,685
	59,666	**104,917**

The balance of the heading "Accruals - Accrued expenses " of "Other liabilities" in the foregoing table includes, among other items, as of December 31, 2019, balances amounting to EUR 10,657 thousand (EUR 19,833 thousand at 31 December 2018) that originate in variable remuneration paid by the outstanding staff.

“Other Liabilities - Transactions in Transit” in the above table relates mainly to temporary balances consisting basically of share subscription transactions and other transactions performed on organised markets pending settlement.

15. Financial liabilities at amortised cost

15.1. Breakdown

The detail of the items composing this heading in the balance sheets at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Deposits-		
Central Banks	445,256	349,238
Deposits from credit institutions	1,673,637	1,202,934
Customer deposits	6,943,936	5,115,807
	9,062,829	6,667,979
Measurement adjustments	177	444
	9,063,006	6,668,423
Other financial liabilities	148,758	277,917
	9,211,764	**6,946,340**

Note 21 provides information on the fair value of these financial liabilities.

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At 31 December 2019 the deadlines for these liabilities are as follows:

	Total balance	Sight	Following day	After next day and up to 1 week	After 1 week and up to 1 month	After 1 month and up to 3 months	After 3 months and up to 6 months	After 6 months and up to 9 months	After 9 months and up to 1 year	After 1 year and up to 2 years	After 2 years and up to 3 years	After 3 years and up to 5 years	After 5 years
Total outflows	(9,207,142)	(6,803,851)	(871,022)	(487,936)	(456,963)	(458,806)	9,238	2,590	(3,789)	9,685	(15,663)	(42,304)	(88,322)
Bank deposits	(2,015,542)	(453,929)	(721,831)	(285,594)	(90,497)	(451,485)	(6,607)	(2,782)	(2,011)	(68)	(63)	(109)	(566)
Other credit institutions	(2,015,542)	(453,929)	(721,831)	(285,594)	(90,497)	(451,485)	(6,607)	(2,782)	(2,011)	(68)	(63)	(109)	(566)
Deposits from other financial institutions and international bodies	(5,965,926)	(5,965,926)	-	-	-	-	-	-	-	-	-	-	-
Other financial institutions	(5,965,926)	(5,965,926)	-	-	-	-	-	-	-	-	-	-	-
Deposits from large non-financial companies	(110,615)	(110,615)	-	-	-	-	-	-	-	-	-	-	-
Financing from other customers	(273,381)	(273,381)	-	-	-	-	-	-	-	-	-	-	-
Retail customer deposits (households and SMEs)	(67,981)	(67,981)	-	-	-	-	-	-	-	-	-	-	-
Of which: Stable balances	(67,981)	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from public administrations	(205,400)	(205,400)	-	-	-	-	-	-	-	-	-	-	-
Of which: Operating balances	(205,400)	-	-	-	-	-	-	-	-	-	-	-	-
Financing secured by securities	(697,006)	-	-	(200,151)	(363,905)	-	-	-	-	-	-	(10,996)	(121,954)
With counterparties other than central banks and public administrations	(697,006)	-	-	(200,151)	(363,905)	-	-	-	-	-	-	(10,996)	(121,954)
Secured by central administrations	(693,468)	-	-	(197,678)	(362,840)	-	-	-	-	-	-	(10,996)	(121,954)
Of which: Spanish government debt	(454,391)	-	-	(172,497)	(148,944)	-	-	-	-	-	-	(10,996)	(121,954)
Secured by others and companies	(1,181)	-	-	(1,181)	-	-	-	-	-	-	-	-	-
Secured by eligible treasury shares	(2,357)	-	-	(1,292)	(1,065)	-	-	-	-	-	-	-	-
Derivatives (net)	4,519	-	-	(2,191)	(2,561)	(7,321)	15,845	5,372	(1,778)	9,753	(15,600)	(31,199)	34,198
Other outflows (net)	(149,191)	-	(149,191)	-	-	-	-	-	-	-	-	-	-
Residents	(8,363,620)	(6,802,007)	(721,831)	(285,594)	(90,497)	(451,485)	(6,607)	(2,782)	(2,011)	(68)	(63)	(109)	(566)
Non-residents	(1,844)	(1,844)		-	-	-							
Total inflows	10,087,609	-	3,571,404	1,801,901	878,073	471,979	87,707	102,723	345,248	559,479	227,943	865,975	1,175,177
Bank deposits	3,620,805	-	3,571,404	32,256	1,200	12,930	586	-	-	-	-	2,429	-
Other credit institutions	3,620,805	-	3,571,404	32,256	1,200	12,930	586	-	-	-	-	2,429	-
Acquisitions of securities and loans of securities under repurchase agreements (taker)	2,941,047	-	-	1,768,972	856,813	280,530	17,583	17,149	-	-	-	-	-
Secured by central administrations	2,500,806	-	-	1,722,695	601,490	176,621	-	-	-	-	-	-	-
Of which: Spanish government debt	2,201,691	-	-	1,641,182	455,209	105,300	-	-	-	-	-	-	-
Secured by others and companies	400,908	-	-	45,705	253,905	101,298	-	-	-	-	-	-	-
Secured by uncollateralised credit institutions	36,934	-	-	-	-	2,611	17,174	17,149	-	-	-	-	-
Secured by other assets	2,399	-	-	572	1,418	-	409	-	-	-	-	-	-
Loans	54,509	-	-	-	-	54,509	-	-	-	-	-	-	-
Other non- financial companies	9,509	-	-	-	-	9,509	-	-	-	-	-	-	-
Of which: Large non-financial companies	9,509	-	-	-	-	9,509	-	-	-	-	-	-	-
Public administrations	45,000	-	-	-	-	45,000	-	-	-	-	-	-	-
Other loans	54,509	-	-	-	-	54,509	-	-	-	-	-	-	-
Liquidation of the securities portfolio	3,436,512	-	-	-	20,000	119,495	61,281	74,396	335,195	559,479	227,943	863,546	1,175,177
Interest margin	34,736	-	-	673	60	4,515	8,257	11,178	10,053	-	-	-	-

At 31 December 2018 the deadlines for these liabilities are as follows:

	Total balance	Sight	Following day	After next day and up to 1 week	After 1 week and up to 1 month	After 1 month and up to 3 months	After 3 months and up to 6 months	After 6 months and up to 9 months	After 9 months and up to 1 year	After 1 year and up to 2 years	After 2 years and up to 3 years	After 3 years and up to 5 years	After 5 years
Total outflows	(7,185,875)	(4,711,514)	(1,207,233)	(750,552)	(110,765)	(28,748)	(11,348)	10,558	6,495	(5,488)	(49,449)	(53,233)	(274,600)
Bank deposits	(1,942,770)	(351,744)	(1,018,217)	(533,895)	(13,060)	(13,336)	(7,623)	(1,829)	(2,160)	(99)	(68)	(122)	(617)
Other credit institutions	(1,942,770)	(351,744)	(1,018,217)	(533,895)	(13,060)	(13,336)	(7,623)	(1,829)	(2,160)	(99)	(68)	(122)	(617)
Deposits from other financial institutions and international bodies	(4,045,653)	(4,045,653)	-	-	-	-	-	-	-	-	-	-	-
Other financial institutions	(4,045,653)	(4,045,653)	-	-	-	-	-	-	-	-	-	-	-
Deposits from large non-financial companies	(20,546)	(20,546)	-	-	-	-	-	-	-	-	-	-	-
Financing from other customers	(293,571)	(293,571)	-	-	-	-	-	-	-	-	-	-	-
Retail customer deposits (households and SMEs)	(61,034)	(61,034)	-	-	-	-	-	-	-	-	-	-	-
Of which: Stable balances	(61,034)	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from public administrations	(232,537)	(232,537)	-	-	-	-	-	-	-	-	-	-	-
Of which: Operating balances	(232,537)	-	-	-	-	-	-	-	-	-	-	-	-
Financing secured by securities	(650,496)	-	-	(213,161)	(89,157)	-	-	(5,064)	-	-	(32,700)	(19,749)	(290,665)
With counterparties other than central banks and public administrations	(650,496)	-	-	(213,161)	(89,157)	-	-	(5,064)	-	-	(32,700)	(19,749)	(290,665)
Secured by central administrations	(650,496)	-	-	(213,161)	(89,157)	-	-	(5,064)	-	-	(32,700)	(19,749)	(290,665)
Of which: Spanish government debt	(501,285)	-	-	(104,019)	(49,088)	-	-	(5,064)	-	-	(32,700)	(19,749)	(290,665)
Secured by others and companies	(43,823)	-	-	(3,496)	(8,548)	(15,412)	(3,725)	17,451	8,655	(5,389)	(16,681)	(33,362)	16,682
Secured by eligible treasury shares	(189,016)	-	(189,016)	-	-	-	-	-	-	-	-	-	-
Derivatives (net)	(6,301,102)	(4,710,076)	(1,018,217)	(533,895)	(13,060)	(13,336)	(7,623)	(1,829)	(2,160)	(99)	(68)	(122)	(617)
Other outflows (net)	(1,438)	(1,438)	-	-	-	-	-	-	-	-	-	-	-
Residents	8,041,505	-	4,252,584	368,979	678,926	310,899	151,888	58,562	176,082	402,148	461,068	301,923	878,447
Non-residents	4,265,643	-	4,252,595	-	-	1,339	11,709	-	-	-	-	-	-
Total inflows	4,265,643	-	4,252,595	-	-	1,339	11,709	-	-	-	-	-	-
Bank deposits	1,194,886	-	-	369,637	644,308	174,265	6,676	-	-	-	-	-	-
Other credit institutions	1,046,503	-	-	359,271	589,499	97,733	-	-	-	-	-	-	-
Acquisitions of securities and loans of securities under repurchase agreements (taker)	571,725	-	-	73,844	400,148	97,733	-	-	-	-	-	-	-
Secured by central administrations	10,366	-	-	10,366	-	-	-	-	-	-	-	-	-
Of which: Spanish government debt	119,065	-	-	-	45,184	67,205	6,676	-	-	-	-	-	-
Secured by others and companies	14,872	-	-	-	9,625	5,247	-	-	-	-	-	-	-
Secured by uncollateralised credit institutions	4,080	-	-	-	-	4,080	-	-	-	-	-	-	-
Secured by other assets	13,808	-	-	-	-	13,808	-	-	-	-	-	-	-
Loans	13,808	-	-	-	-	13,808	-	-	-	-	-	-	-
Other non- financial companies	13,808	-	-	-	-	13,808	-	-	-	-	-	-	-
Of which: Large non-financial companies	13,808	-	-	-	-	13,808	-	-	-	-	-	-	-
Public administrations	2,543,906	-	-	-	33,354	119,469	125,325	54,490	167,682	402,148	461,068	301,923	878,447
Other loans	23,263	-	(11)	(658)	1,264	2,018	8,178	4,072	8,400	-	-	-	-

15.2. Financial liabilities at amortised cost - Deposits – Central Banks

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balances of this item in the balance sheets at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	2019	**2018**
By geographical location:		
Spain	445,990	349,573
	445,990	**349,573**
By type of instrument:		
Time deposits-		
Time deposits	445,256	349,238
	445,256	349,238
Measurement adjustments	734	335
	445,990	**349,573**

15.3. Financial liabilities at amortised cost - Deposits – Credit entities

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balances of this item in the balance sheets at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	2019	**2018**
By geographical location:		
Spain	1,002,437	711,358
Other EMU countries	523,078	327,552
Rest of the world	147,499	163,562
	1,673,014	**1,202,472**
By type of instrument:		
Demand deposits and other-		
Other accounts	730,884	692,899
Time deposits-		
Time deposits	456,182	279,187
Repurchase agreements	486,571	230,848
	1,673,637	1,202,934
Measurement adjustments	(623)	(462)
	1,673,014	**1,202,472**

15.4. Financial liabilities at amortised cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of Counterparty, of the balances of this item in the balance sheets at 31 December 2019 and 2018 are as follows:

		Thousands of euros
	2019	**2018**
By geographical location:		
Spain	6,938,052	5,103,171
Other EMU countries	4,594	7,896
Rest of the world	1,356	5,311
	6,944,002	**5,116,378**
By counterparty:		
Resident public sector	222,323	232,486
Non-resident public sector	-	100
Other resident sectors	6,715,663	4,870,115
Other non-resident sectors	5,950	13,106
Central counterparties	-	-
	6,943,936	5,115,807
Measurement adjustments	66	571
	6,944,002	**5,116,378**
By type of instrument:		
Current accounts	6,401,444	4,316,952
Other demand deposits	-	135,214
Fixed-term deposits	424,226	587,185
Repurchase agreements	118,266	76,456
	6,943,936	5,115,807
Measurement adjustments	66	571
	6,944,002	**5,116,378**

15.5. Financial liabilities at amortised cost - Other financial liabilities

The breakdown of the balance of this item in the balance sheets at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Payment obligations	11,678	13,342
Collateral received	2,754	-
Tax collection accounts	3,631	208
Clearing houses	3	-
Collection accounts	29,771	21,383
Other items	100,921	242,984
	148,758	**277,917**

These in operation carried out by certain credit in through the Bank. They are of a transitional nature and are settled on the first business day following the date they originated.

The balance account “Other items” in the preceding table essentially records balances totalling EUR 52,433 thousand in repayments of loans granted to public administrations at 31 December 2019 (EUR 53,770 thousand at 31 December 2018) and EUR 5,474 thousand in fees payable to brokers. At 31 December 2018, the most significant amount was EUR 128,984 thousand in means of payment items pending settlement.

The balance in the account "liabilities associated with right-to-use assets" (see Note 12) includes EUR 2,754 thousand for the mandatory future lease payments under the contracts in force at 31 December 2019.

16. Provisions

The changes in the balances of these items in the balance sheets at 31 December 2019 and 2018 were as follows:

Thousands of euros

	Other long-term employee remuneration (Note 35)	Commitments and guarantees granted (Notes 2.10, 22 and 27.1)	Litigation proceedings	Other provisions
Balances at 1 January 2018	**63,229**	**206**	**14,888**	**73,520**
Net addition/ (reversal) charged/ (credited) to income	(423)	(133)	(972)	(10,597)
Other net movements	(13,096)	201	(4,116)	(112)
Balances at 31 December 2018	**49,710**	**274**	**9,800**	**62,811**
Net addition/ (reversal) charged/ (credited) to income	237	29	(654)	(11,172)
Other net movements	(8,291)	-	(135)	(761)
Balances at 31 December 2019	**41,656**	**303**	**9,011**	**50,878**

"Other Changes, Net" under "Other Long-Term Employee Benefits" in 2019 consists mainly of the benefits paid to participants in the defined benefit plans totalling EUR 13,521 thousand (2018: EUR 13,164 thousand) (see Note 35). This item also includes EUR 5,230 thousand reclassified from the heading "Other liabilities" to this heading since it related to commitments acquired with Cecabank personnel that no longer work at the bank.

The heading "Litigation proceedings" includes provisions that have been recognised to cover potential litigation deriving from the Bank's business activity. "Other Provisions" at 31 December 2019 includes basically the amount recorded, based on an internal model developed by the bank, to cater for the operational risk to which the directors consider the Bank to be exposed as a result of the provision of custody and depository services for securities entrusted by third parties, as well as the provisions recognised in relation to operations involving certain interest rate derivatives.

17. Other accumulated net income

17.1. Items that may be reclassified to profit or loss - Changes of fair value of debt instruments measured at fair value through other comprehensive income

This item in the balance sheets at 31 December 2019 and 2018 includes the amount, net accumulated of the related tax effect, of changes in the fair value of debt instruments measured at fair value through other comprehensive income (see Note 7) which, as stated in Note 2.2, should be recognised in the Bank's equity; these changes are recognised in the income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying statements of recognised income and expense show the changes in 2019 and 2018 in this item in the balance sheets at 31 December 2019 and 2018.

17.2. Items that will not be reclassified to profit or loss – Actuarial gains and losses from defined benefit pension obligations

This heading in the balance sheets at 31 December 2019 and 2018 included the net cumulative amount, adjusted for the related tax effect, of the actuarial gains and losses arising from the measurement of the provision for defined benefit pension obligations (see Notes 2.11.2 and 35). The accompanying statement of changes of equity shows the changes in 2019 and 2018 in this item in the balance sheets at 31 December 2019 and 2018.

17.3. Items that will not be reclassified to profit or loss - Changes of fair value of debt instruments measured at fair value through other comprehensive income

This heading in the balance sheets as at 31 December 2019 and 2018 includes the net accumulated amount, adjusted by the related tax effect, of changes in the fair value of equity instruments classified as financial assets measured at fair value through other comprehensive income since their acquisition (see Note 7), which, as indicated in Note 2.2, should be classified in the Bank's equity. These changes are recognised under "Other Reserves" when the assets which gave rise to the changes are sold. The accompanying statement of changes in equity reflects the changes that took place in this heading of the balance sheets as at 31 December 2019 and 2018.

18. Share Capital and Share Premium

18.1. Share capital

The Bank was incorporated effective 1 January 2012 (see Note 1.1) with an initial share capital of EUR 100,000,000, represented by 100,000,000 registered shares with a par value of 1 euro each, and its single shareholder at the time of incorporation was CECA.

Subsequently, on 13 November 2012, under the spin-off process conducted by CECA in favour of the Bank (see Note 1.1), a capital increase amounting to EUR 78,932,117.60 was carried out by issuing 12,256,540 new shares with the same voting and economic rights and with the same par value of 1 euro and a share premium of EUR 5.44 per share. These shares were fully subscribed and paid by the previous owners of the non-voting equity units that were part of the equity of CECA, following acceptance of CECA's offer to repurchase the non-voting equity units and CECA's waiver of its pre-emptive subscription right on shares of the Bank. CECA thus retained an 89% ownership interest in the Bank's share capital.

In this regard, at 31 December 2019 and 2018, the Bank's share capital consisted of 112,256,540 fully subscribed and paid registered shares of EUR 1 par value each, all with the same dividend and voting rights. At 31 December 2019 and 2018, 89% of the Bank's share capital was held by Confederación Española de Cajas de Ahorros. The remaining 11% is owned by other financial entities.

The Bank carried out a significant volume of transactions with its controlling shareholder, the Group of which it forms part (see Note 40) and with other shareholders.

The Bank's shares are not listed on official stock markets. Except for CECA's 89% ownership interest in the Bank's share capital, no entity owns more than 10% of the Bank. There are no rights on founder's shares, "rights" bonds, convertible debentures or similar securities or rights issued by the Bank or the Group. There are no payments payables on the Bank's shares, amounts authorised by the General Meeting for carrying out capital increases, or capital increases in progress. During the 2019 and 2018 years there were no increases in the number of shares issued by the Bank.

18.2. Share premium

According to the Spanish Limited Liability Companies Law, it is explicitly permitted the use of the balance of this reserve to increase capital and it establishes no specific restrictions as to its use. The balance of the share premium at 31 December 2019 and 2018 amounted to EUR 615,493 thousand which arose as a result of the capital increase described in Note 18.1 above and the recognition in 2012 of the spin-off of the assets and liabilities of Cecabank described previously (see Note 1.1).

18.3. Earnings per share

Basic earnings per share are calculated by dividing the net earnings by the weighted average number of outstanding shares for the year, excluding the average number of treasury shares held during the year.

The dilution result per share is due to dividing net earnings by the weighted average number of outstanding shares during the year, adjusting for the dilution effect, which is deemed to be the existence of convertible debt and stock options. The Bank has not issued instruments with a potential dilution effect at 31 December 2019 and 31 December 2018.

The earnings per share at 31 December 2019 and 31 December 2018 are set out below:

		Thousands of euros
	2019	**2018**
Profit/(loss) for the year	45,185	63,494
Weighted average number of shares	112,256,540	112,256,540
Basic earnings per share	**0.000402516**	**0.000565615**
Profit/(loss) for the year	45,185	63,494
Corrections to results due to issues of convertibles/options	-	-
Adjusted profit/(loss)	**45,185**	**63,494**
Weighted average number of shares	112,256,540	112,256,540
Diluted earnings per share	**0.000402516**	**0.000565615**

19. Retained earnings and Other reserves

The changes in the balances of these items in the balance sheets at 31 December 2019 and 2018 were as follows:

19.1. Retained earnings

"Retained Earnings" includes the net amount of the accumulated profits or losses recognised in prior years in the income statement which are still available for distribution or which, in the distribution of profit, are appropriated to equity.

19.1.1 Legal Reserve

According to the Spanish Limited Liability Companies Law, companies that obtain economic benefits, should allocate at least 10% of them to the constitution of the legal reserve. These transfers must be made until the reserve reaches 20% of capital. The legal reserve can be used to increase share capital by the amount of the balance that exceeds 10% of the already increased share capital amount. Except for this purpose, it can only be used to offset losses, and provided that there are no other sufficient reserves available for this purpose. At 31 December 2019 and 2018, the balance of the legal reserve, amounting to EUR 22,451 thousand, had reached the legally required minimum.

19.1.2. Capitalisation reserve

Pursuant to Article 25 of Spanish Income Tax Law 27/2014, of 27 November, the Bank maintains a restricted reserve for a period of five years from the date of recognition in 2017 financial year, amounting to EUR 18,959 thousand at 31 December 2019 (31 December 2018: EUR 15,487 thousand).

19.1.3. Voluntary Reserves

These reserves are unrestricted reserves for the Bank, as there is no legal or bylaw restriction on their use. The balance thereof at 31 December 2019 totals EUR 267,698 thousand (31 December 2018: EUR 228,629 thousand).

19.2. Other reserves

"Other Reserves" includes the amount of the reserves not included under other items, such as amounts arising from permanent adjustments made directly in equity in connection with expenses arising from the issuance, redemption or retirement of own equity instruments and the retrospective restatement of the financial statements due to errors or changes in accounting policies, net of the related tax effect. At 31 December 2019, these reserves included mainly the effects of initial application of the regulatory change described in Note 1.4.

20. Tax matters

The Bank is part of the Tax Consolidation Group number 508/12 established on 1 January 2012, parented by the Confederación Española de Cajas de Ahorros (see Note 18).

The Bank files its tax returns, according to the tax legislation.

20.1. Years open for review by the tax authorities

In 2017, as a result of an audit conducted by the tax authorities, tax assessments were issued for the years until 2013 inclusive, most of which were signed on an uncontested basis. At 31 December 2018, the amounts assessed as a result of the aforementioned inspection have been fully paid.

In addition, since the returns filed by the Bank in the last four years are open for review by the tax authorities, from the end of the voluntary filing period for income tax and for the other taxes, the Bank's directors consider that the impact of the varying interpretations that can be made of certain tax legislation applicable to the transactions performed by the Bank in the years not yet reviewed will not have a material effect on the figures included in the accompanying financial statements.

20.2. Tax expense or income related to profit or loss from continuing operation

The detail of "Tax expense or income related to profit or loss from continuing operation" in the income statements for 2019 and 2018 is as follows:

Thousands of euros

	Expenses/(Revenues)	
	2019	2018
Income tax expense for the year (Note 20.3)	18,390	25,448
Prior years' and other adjustments	(518)	(201)
	17,872	**25,247**

20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognised for 2019 and 2018 to the accounting profit before tax multiplied by the tax rate applicable to the Bank, and the income tax charge recognised at 31 December 2019 and 2018 is as follows:

Thousands of euros

	2019	2018
Accounting profit before tax	63,057	88,741
Tax rate	30%	30%
	18,917	26,622
Permanent differences:		
Increases	1,058	191
Decreases	(1,586)	(916)
Total	**18,390**	**25,897**
(Tax credits)/(Tax relief)	-	(449)
Income tax expense for the year (Note 20.2)	**18,390**	**25,448**
Temporary differences effect:		
Increases	4,805	2,699
Decreases	(14,387)	(17,689)
Tax with holdings and prepayments	(9,946)	(11,010)
Limitation of 25% Group taxable income prior integration DTAs	(590)	(2,020)
Income tax charge for the year	**1,728**	**(2,573)**

The current income tax charge shown in the above table is recognised under "Tax Assets-Current Tax Assets" in the balance sheet attached at 31 December 2019 and 2018.

Transitional Provision Thirty-Nine of Law 27/2014 (27 November) relating to the inclusion of accounting adjustments in the tax base due to the first application of Bank of Spain Circular 4/2017 (27 November) by credit institutions, on public and reserved financial information standards and model financial statements, stipulates that “charges and credits to reserve accounts that are considered to be expenses or income, respectively, since they have tax effects in accordance with the provisions of this Law, as a result of the first application of the Bank of Spain Circular 4/2017 (27 November by credit institutions, on public and reserved financial information standards and model financial statements, will be included equally in the tax base for each of the first three tax periods commencing on or after 1 January 2018, and including those items will not result in the application of the provisions of Article 130 of this Law.”

The final paragraph of that Law stipulates that mention must be made in the notes to the financial statements for the years covering those tax periods of the amounts included in the tax base and those that have yet to be included.

For these purposes, the amounts included in the Bank’s tax base for 2018 and 2019 total EUR 695,038.90 and the amounts that have yet to be included total EUR 347,519.45.

20.4. Tax recognised in equity

In addition to the income tax recognised in the income statement, in 2019 and 2018 the Bank recognised the following deferred amounts of income tax in equity during those periods:

	Thousands of euros	
	Increase/Decrease in Equity	
	2019	**2018**
Tax effect of actuarial gains and losses on pension plans to defined benefit (Note 35)	1,790	(185)
Tax effect of unrealised gains or losses on equity instruments at fair value through other comprehensive income	(1,140)	(596)
Tax effect of unrealised gains or losses on debt instruments measured at fair value through other comprehensive income	(4,628)	13,478
	(3,978)	**12,697**

20.5. Deferred taxes

Pursuant to tax legislation in force, in 2019 and 2018 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognised in the balance sheets at 31 December 2019 and 2018 were as follows:

	Thousands of euros	
	2019	**2018**
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	7,452	7,625
Additions to provisions	15,583	21,535
Impairment losses	54,801	60,925
Other	5,063	10,233
	82,899	**100,318**

EUR 27,787 thousand of the total deferred tax assets recognised at 31 December 2019 (31 December 2018: EUR 28,291 thousand) relate to assets that meet the conditions of Article 130 of Spanish Income Tax Law 27/2014, of 27 November, to give rise to a possible right to convert them into credits receivable from the tax authorities.

The Bank expects to recover non-monetizable deferred assets over the coming 10 years, in accordance with the projections made in Cecabank's budgets and projections of the future.

	Thousands of euros	
	2019	**2018**
Deferred tax liabilities arising from:		
Restatement of property	7,934	7,937
Additions and contributions to pension provisions and funds and to provisions for other long-term obligations to employees	682	2,456
Other items	5,713	7,620
	14,329	**18,013**

20.6. Income qualifying for the reinvestment tax credit deductions

The amount of the income qualifying for the reinvestment tax credit and deductions for each year is as follows:

Year			Thousands of euros
	Income qualifying	**Rent accredited**	**Deduction**
2010 (*)	10,681	4,448	534
2011 (*)	846	1,820	218
2012	-	5,259	631
	11,527	**11,527**	**1,383**

(*) Income generated and reinvestments accredited by the Confederación Española de Cajas de Ahorros, before the spin-off performed in 2012.

20.7. Restatement of assets

The Bank has not availed itself of the process for restating the tax value of certain properties as defined by Law 16/2012, of 27 December, adopting various tax measures aimed at consolidating public finances and boosting economic activity, which enables entities to restate certain assets on their balance sheets, provided certain requirements are met.

21. Fair value

21.1. Fair value of financial assets and liabilities

The fair value of the Bank's financial instruments at 31 December 2019 and 2018 is broken down, by class of financial asset and liability into the following levels:

- **TIER 1**: financial instruments whose fair value is determined by reference to their quoted price in active markets.

- **TIER 2**: financial instruments whose fair value is estimated by reference to quoted prices in organised markets for similar instruments or using other measurement techniques in which all the significant inputs are based on directly or indirectly observable market data.

- **TIER 3**: instruments whose fair value is estimated using measurement techniques in which certain significant inputs are not based on observable market data.

The most objective reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and of commonly used measurement techniques.

The methodology used to calculate fair value for each class of financial assets and liabilities is as follows:

- Trading derivatives and hedging derivatives:
  - Financial derivatives traded in organised, transparent and deep markets: fair value is deemed to be their daily quoted price.
  - OTC derivatives or derivatives traded in scantly deep or transparent organised markets: fair value is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using measurement techniques accepted in the financial markets: "net present value" (NPV), option pricing models, etc.
- Debt instruments:
  - Quoted debt instruments: their fair value is generally determined on the basis of price quotations on official markets, at the Bank of Spain Book-Entry Trading Central Office, on the Spanish AIAF fixed-income market, etc., or by applying prices obtained from information service providers, mainly Bloomberg and Reuters, which construct their quotes on the basis of prices reported by contributors.
  - Unquoted debt instruments: their fair value is determined theoretically on the basis of discounted future cash flows and by using, for the specific instrument concerned, the corresponding measurement model recognised by the financial markets.
- Equity instruments:
  - Quoted equity instruments: their fair value was determined taking into account their price quotations on official markets.
  - Unquoted equity instruments: their fair value was determined taking into consideration valuations performed by independent experts, including intern control over their measurement, or directly using intern valuations. In both cases, there has been used:
    - Discounted cash flows.
    - Multiples of comparable listed companies.
    - Adjusted Net Asset Value (NAV).
- Loans and prepayments to customers:
  - The Bank considered the fair value of these financial assets to be the same as their carrying amount, since, as a result of their maturity and interest rate features and the early repayment clause of most transactions, there are no material differences between the two values.
- Financial liabilities at amortised cost:
  - The Bank considered the fair value of these financial liabilities to be the same as their carrying amount, since, as a result of their maturity and interest rate features, there are no material differences between the two values.

For the purposes of Tiers 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Shifted lognormal, Libor Market and Hull-White models for derivates over interest rates, the Black Scholes model for derivates over equities and foreign currency, and the Jarrow-Turnbull, Black adapted to credit and LHP models for credit products; the most common directly observable data are the interest rate, exchange rate and certain implied volatilities, and correlations.

The fair value of the Bank's financial instruments at 31 December 2019 and 2018, broken down as indicated above, is as follows:

Financial assets and liabilities– fair value at 31 December 2019:

	Fair value hierarchy			Changes in fair value for the period		Accumulated change in fair value before taxes		
	Tier 1	Tier 2	Tier 3	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Assets								
Financial assets held for trading	727,904	1,087,972	33,664	56,824	(268)	32,524	951,190	33,664
Derivatives	32	947,867	33,664	54,950	(268)	32	947,867	33,664
Equity instruments	379,531	-	-	-	-	(1,926)		-
Debt securities	348,341	140,105	-	1,874	-	34,418	3,323	-
Financial assets not held-for-trading mandatorily classified at fair value through profit or loss	1,087	37,930	-	(124)	-	(182)	2,834	-
Equity instruments	1,087	7,410	-	(662)	-	(182)	2,470	-
Debt securities	-	30,117	-	538	-	-	364	-
Loans and prepayments	-	403	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	1,826,942	245,519	-	-	-	5,574	8,566	-
Equity instruments	-	14,269	-	-	-		8,379	-
Debt securities	1,826,942	231,250	-	-	-	5,574	187	-
Derivatives - Hedge accounting	-	12,784	-	12,603	-	-	12,784	-
Liabilities								
Financial liabilities held for trading	190,602	987,592	33,552	(55,127)	251	(2,693)	987,592	33,552
Derivatives	22	987,592	33,552	(55,127)	251	22	987,592	33,552
Short positions	190,580	-	-	-	-	(2,715)	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivatives - Hedge accounting	-	13,463	-	(2,378)	-	-	13,463	-

Financial assets and liabilities– fair value at 31 December 2018:

	Fair value hierarchy			Changes in fair value for the period		Accumulated change in fair value before taxes		
	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3	Tier 1	Nivel 3
Assets								
Financial assets held for trading	935,231	985,152	-	(103,277)	-	(10,272)	928,247	-
Derivatives	94	926,849	-	(104,431)	-	94	926,849	-
Equity instruments	240,744	-	-	-	-	(40,499)	-	-
Debt securities	694.393	58.303	-	1.154	-	30.133	1.398	-
Financial assets not held-for-trading mandatorily classified at fair value through profit or loss	5,143	55,270	-	(3,232)	-	(348)	(3,232)	-
Equity instruments	5,143	13,950	-	3,132	-	(348)	3,132	-
Debt securities	-	41,320	-	(6,364)	-	-	(6,364)	-
Loans and prepayments	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	(10)	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	(10)	-	-	-	-
Equity instruments	1,276,682	202,291	-	-	-	(1,652)	4,028	-
Debt securities	-	10,295	-	-	-	-	4,405	-
Derivatives - Hedge accounting	1,276,682	191,996	-	-	-	(1,652)	(377)	-
Liabilities	-	17	-	(26)	-	-	17	-
Financial liabilities held for trading			-					
Derivatives	410,589	966,268	-	179,727	-	(6,234)	966,268	-
Short positions	755	966,268	-	179,727	-	755	966,268	-
Financial liabilities designated at fair value through profit or loss	409,834	-	-	-	-	(6,989)	-	-
Derivatives - Hedge accounting	-	-	-	-	-	-	-	-
Debt securities	-	13,463	-	(2,378)	-	-	13,463	-

For the purposes of the criteria explained in the foregoing paragraphs, an input is considered to be significant if it is important in determining the fair value in its entirety.

The level of the aforementioned fair value hierarchy (tiers 1, 2 or 3) within which the measurement of each of the Bank's financial instruments is categorised is determined on the basis of the lowest level input that is significant to the estimate of its fair value.

During 2019 there were transfers from tier 2 to tier 3 involving certain securitisation swaps whose underlying assets were benchmarked to the IRPH. During 2018 there have been no significant transfers between the different hierarchy levels or any relevant changes in the measurement of unlisted equity instruments.

The breakdown of the securities portfolio with respect to debt securities is also included:

At 31 December 2019:

	Carrying amount		Latent capital losses				
	Total	Corrected acquisition price	Accumulated losses in fair value due to credit risk	Accumulated losses in fair value not due to credit risk	Latent capital gains	Accumulated impairment	Memorandum: Repo agreements
Debt securities	-	-	-	-	-	-	-
Financial assets held for trading	488,446	488,446	-	-	-	-	75,632
Financial assets not held-for-trading mandatorily classified at fair value through profit or loss	30,117	30,117	-	-	-	-	-
Financial assets at fair value through other comprehensive income (Note 7)	2,058,192	2,053,830	-	(9,285)	15,046	(1,399)	823,287
Financial liabilities at amortised cost (Note 8)	307,700	310,108	-	-	-	(2,408)	-
Total	**2,884,455**	**2,882,501**	**-**	**(9,285)**	**15,046**	**(3,807)**	**898,919**
Of which: Spanish Public Administrations	919,719	923,661	-	(5,118)	1,176	-	498,139
Financial assets held for trading	278,236	278,236	-	-	-	-	75,632
Financial assets at fair value through other comprehensive income	641,483	645,425	-	(5,118)	1,176	-	422,507
Of which: Public administrations not residing in Spain	1,202,687	1,203,227	-	(4,105)	3,565	-	388,617
Financial assets held for trading	3,213	3,213	-	-	-	-	-
Financial assets at fair value through other comprehensive income	913,742	914,282	-	(4,105)	3,565	-	388,617
Financial assets at amortised cost	285,732	285,732	-	-	-	-	-

A 31 de diciembre de 2018:

	Carrying amount		Latent capital losses				
	Total	Corrected acquisition price	Accumulated losses in fair value due to credit risk	Accumulated losses in fair value not due to credit risk	Latent capital gains	Accumulated impairment	Memorandum: Repo agreements
Debt securities	-	-	-	-	-	-	
Financial assets held for trading	752,696	752,696	-	-	-	-	92,528
Financial assets not held-for-trading mandatorily classified at fair value through profit or loss	41,320	41,320	-	-	-	-	-
Financial assets at fair value through other comprehensive income (Note 7)	1,468,678	1,471,318	-	(14,834)	12,805	(611)	137,278
Financial liabilities at amortised cost (Note 8)	21,503	23,246	-	-	-	(1,743)	-
Total	2,284,197	2,288,580	-	(14,834)	12,805	(2,354)	229,806
Of which: Spanish Public Administrations	744,546	732,166	-	(216)	12,596	-	151,774
Financial assets held for trading	419,725	419,725	-	-	-	-	92,528
Financial assets at fair value through other comprehensive income	324,821	312,441	-	(216)	12,596	-	59,246
Of which: Public administrations not residing in Spain	1,060,567	1,071,717	-	(11,150)	-	-	78,032
Financial assets held for trading	117,327	117,327	-	-	-	-	-
Financial assets at fair value through other comprehensive income	943,240	954,390	-	-	-	-	78,032

21.2. Fair value of Property, plant and equipment

The only Property, plant and equipment (own-use properties and property investments) held by the Bank whose fair value differs from their carrying amount are the properties owned by it. At 31 December 2019, the carrying amount of these properties amounted to EUR 43,887 thousand (31 December 2018: EUR 44,895 thousand) and their estimated fair value at that date was EUR 58,405 thousand at 31 December 2019 and 2018.

The aforementioned fair value was estimated by Instituto de Valoraciones, S.A. using generally accepted measurement techniques.

22. Exposure to credit risk associated with financial instruments

22.1. Credit risk management objectives, policies and processes

Credit risk is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed.

The Bank has established certain procedures for the correct management of credit risk, the main features of which are as follows:

Credit risk analysis

At the Entity, the process of assessing the credit quality of counterparties is closely linked with the assignment of limits. Thus, the Bank assigns internal ratings to the various potential counterparties. This internal rating, together with the external agencies' ratings, contributes to the establishment of the maximum risk to be assumed with each entity. It also constitutes the basis for the acceptance and monitoring of risk.

The rating is the result of an analysis of various quantitative and qualitative factors which are assessed independently and receive a specific weighting for the calculating of the final rating. The final rating results from an independent assessment performed by the Bank's analysts, which brings together the perception of the credit quality of the entities with which the Bank wishes to transact business.

Credit risk monitoring and control

Credit risk is monitored through active portfolio management. The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into standard risk counterparties and counterparties under special surveillance.

As in risk analysis, ratings constitute another element for the risk monitoring process together with other variables including the country and type of business, among others.

In addition, as part of the monitoring of the credit risk and the adequacy of the contractual documentation supporting these operations is actively managed and monitored in conjunction with the Legal Department.

The control process comprises all the activities relating to the permanent checking of compliance with the established credit, counterparty and settlement risk limits, the management and reporting of overruns and the maintenance and update of parameterisations of products, customers, countries, economic groups, ratings, contractual offsetting agreements and financial guarantees in the control tools.

Risk limit structure

The Bank's general credit risk limit structure is divided into two major groups. On one hand, there are the limits individually assigned to a counterparty. There are also a series of limits associated with certain activities, as country risk limits and operating limits for private-sector fixed-income securities and equity securities, among others.

Credit Risk Measurement Methodology

Cecabank calculates credit risk exposure by applying the standardised approach provided in current regulations. Also, for products subject to counterparty risk, the Entity values the position at the market prices of the various transactions, to which it adds certain add-ons which, applied to the notional amounts, include in the measurement the potential risk of each transaction until maturity.

The management tools provide real-time information on the utilisation of credit risk limits for each counterparty and economic group, thus facilitating the ongoing monitoring of any change and/or overrun of these limits.

In accordance with current legislation, the existence of guarantees and collateral reduces the credit risk of transactions for which they are provided.

Concentration risk

With regard to credit risk, concentration risk is an essential management tool. Is constantly monitors the extent of its credit risk concentration under various salient classifications: country, rating, sector, economic group, guaranties, etc.

The Bank uses conservative risk criteria for the management of concentration risk which enable it to manage the available limits sufficiently comfortably with respect to the legally established concentration limits.

According to the regulations in force, no position exceeded the large exposure threshold at 31 December 2019 and 2018.

At 31 December 2019, with regard to distribution by country, the largest exposure was located in Spain (59%), followed by the other European Union countries (39%) rising the exposure in the other countries of the world to 2%. At 31 December 2018, the distribution by country was 76%, 23%, and 1% respectively.

In Note 26 information on the risk of geographical concentration of the Bank as of December 31, 2019 and 2018 is presented.

Regarding the high level of industry concentration, it is due to the Bank's focus and the conducting of many activities, operations and services within the banking business in general, or indirectly related to it. Also, the risks in the financial services industry account for more than 92.70% of the total risk exposure at 31 December 2019 (excluding government exposure), although when evaluating this level of industry concentration, it should be taken into account that this exposure is to a highly regulated and supervised segment.

22.2. Maximum credit risk exposure level

The maximum level of credit risk exposure assumed by the Bank at 31 December 2019 and 2018 for each class and category of financial instrument is indicated in each of the notes to the various portfolios in the balance sheet included in these notes to the financial statements.

Contingent liabilities are presented at the maximum amount guaranteed by the Bank. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Bank. The collateral on these transactions must also be taken into account (see Note 22.3 below). The balances of contingent liabilities are presented at the maximum amounts available by counterparties.

22.3. Collateral received and other credit enhancements

The general policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Details of the item "Loans and prepayments" are set out below, indicating the maximum amount of the real or personal guarantee that may be taken into consideration for each of the exposures at 31 December 2019 and 2018:

31 December 2019:

	Maximum amount of real or personal guarantees that may be considered				
	Loans secured by property		Other loans with real guarantees		
	Residential properties	Commercial properties	Cash (debt instruments issued)	Other	Financial guarantees granted
Loans and prepayments	41,454	-	-	-	74
Of which: Other financial companies	-	-	-	-	-
Of which: Non-financial companies	-	-	-	-	4
Of which: Households	41,454	-	-	-	70
Of which: Home acquisition loans	41,454	-	-	-	28

31 December 2018:

	Maximum amount of real or personal guarantees that may be considered				
	Loans secured by property		Other loans with real guarantees		
	Residential properties	Commercial properties	Cash (debt instruments issued)	Other	Financial guarantees granted
Loans and prepayments	41,475	-	-	-	-
Of which: Other financial companies	-	-	-	-	-
Of which: Non-financial companies	-	-	-	-	-
Of which: Households	41,475	-	-	-	-
Of which: Home acquisition loans	41,475	-	-	-	-

22.4. Credit quality of unimpaired, non-past-due financial assets

22.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2019, 76.6% of the exposure had been rated by a credit rating agency recognised by the Bank of Spain (81.3% at 31 December 2018). The distribution, by rating, of the rated exposure is as follows:

Tier	Tier	Percentage	
		2019	2018
1	AAA-AA	8,0%	9,8%
2	A	33,2%	24,3%
3	BBB	53,4%	55,0%
4	BB	5,4%	10,4%
5	B	0,0%	0,5%
6	CCC y menor	-	-
		100%	**100%**

(*) The exposures were classified taking the most conservative of the ratings granted by the two rating agencies used to manage the Bank's risk: Moody's and S&P.

This distribution of rated exposure excludes positions in government debt securities and guaranteed debt, debt of regional administrations and other public organisms, and that corresponding to central counterparties, all of which are exempt for the purposes of the limits to the great risks.

22.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (excluding impairment losses and other measurement adjustments recognised) in connection with financial assets not past-due or impaired at 31 December 2019 and 2018:

31 December 2019:

	Gross carrying amount						
	Total	Of which: held for trading	Of which: financial assets susceptible to impairment	Of which: restructured or refinanced debt	Of which: doubtful	Accumulated impairment (including stage 1)	Accumulated negative changes in impairment due to credit risk deriving from doubtful exposures
Derivatives	**994,347**	**981,563**	**12,784**	**-**	**-**		**-**
Of which: credit institutions	599,837	587,053	12,784	-	-	-	-
Of which: other financial companies	381,681	381,681	-	-	-	-	-
Equity instruments	**402,296**	**379,531**	**14,268**	**-**	**-**	**-**	**-**
Of which: credit institutions	140,535	132,375	-	-	-	-	-
Of which: other financial companies	22,480	10,172	12,308	-	-	-	-
Of which: other non-financial companies	239,281	236,983	1,960	-	-	-	-
Debt securities	**2,888,262**	**488,446**	**2,369,699**	**-**	**-**	**(3,806)**	**-**
Central banks	43,971	-	43,971	-	-	-	-
Public administrations	2,122,406	281,449	1,840,957	-	-	-	-
Credit institutions	216,145	46,237	169,908	-	-	-	-
Other financial companies	182,759	29,890	122,752	-	-	(2,898)	-
Non-financial companies	322,981	130,870	192,111	-	-	(908)	-
Loans and prepayments	**6,881,955**	**-**	**6,881,553**	**-**	**1,189**	**(702)**	**-**
Central banks	2,009,191	-	2,009,191	-	-	-	-
Public administrations	417,532	-	417,532	-	-	-	-
Credit institutions	4,143,859	-	4,143,859	-	739	(403)	-
Other financial companies	253,638	-	253,638	-	-	(74)	-
Non-financial companies	10,512	-	10,110	-	-	(48)	-
Of which: small and medium sized companies	1,317	-	915	-	-	(3)	-
Of which: loans secured by commercial properties	-	-	-	-	-	-	-
Households	47,223	-	47,223	-	450	(177)	-
Of which: loans secured by residential properties	42,178	-	42,178	-	403	(73)	-
Of which: consumer loans	2,663	-	2,663	-	25	(57)	-

31 December 2018:

	Gross carrying amount						Accumulated negative changes in impairment due to credit risk deriving from doubtful exposures
	Total	Of which: held for trading	Of which: financial assets susceptible to impairment	Of which: restructured or refinanced debt	Of which: doubtful	Accumulated impairment (including stage 1)	
Derivatives	**926,961**	**926,944**	**17**	**-**	**-**	**-**	**-**
Of which: credit institutions	557,072	557,055	17	-	-	-	-
Of which: other financial companies	361,536	361,536	-	-	-	-	-
Equity instruments	**270,132**	**240,744**	**10,295**	**-**	**-**	**-**	**-**
Of which: credit institutions	122,136	103,269	-	-	-	-	-
Of which: other financial companies	14,892	4,768	10,123	-	-	-	-
Of which: other non-financial companies	133,104	132,706	171	-	-	-	-
Debt securities	**2,286,549**	**752,696**	**1,492,536**	**-**	**-**	**(2,355)**	**-**
Central banks	-	-	-	-	-	-	-
Public administrations	1,805,113	537,053	1,268,061	-	-	-	-
Credit institutions	194,471	125,725	68,747	-	-	-	-
Other financial companies	149,865	52,310	56,236	-	-	(1,909)	-
Non-financial companies	137,100	37,608	99,492	-	-	(446)	-
Loans and prepayments	**5,624,521**	**-**	**5,624,521**	**389**	**904**	**(650)**	**-**
Central banks	3,046,432	-	3,046,432	-	-	-	-
Public administrations	94,885	-	94,885	-	-	-	-
Credit institutions	2,026,152	-	2,026,152	-	34	(74)	-
Other financial companies	383,790	-	383,790	-	-	(145)	-
Non-financial companies	23,112	-	23,112	-	-	(110)	-
Of which: small and medium sized companies	917	-	917	-	-	-	-
Households	50,150	-	50,150	389	870	(321)	-
Of which: loans secured by residential properties	45,030	-	45,030	389	808	(209)	-
Of which: consumer loans	2,693	-	2,693	-	31	(59)	-

22.5. Information on non-performing loans ratios

In view of the activities carried on by the Bank and the risk profile assumed by it, its non-performing loans ratios, measured as non-performing assets as a percentage of total credit risk, is 0.01% at 31 December 2018 and 2019.

22.6. Financial assets renegotiated in the year

At 31 December 2018, the Bank had only two refinanced transactions, both of which related to a single employee and which arose due to the defaulted repayments on the loans which this employee had been granted by the Entity. The gross carrying amount of these transactions at 31 December 2018 was EUR 389 thousand, with a specific allowance of EUR 149 thousand. There are no refinanced transactions at 31 December 2019.

22.7. Impaired assets

Following is a detail, by method used to calculate impairment losses (non-performing assets), of the financial assets at 31 December 2019 and 2018:

At 31 December 2019:

Carrying amount

	Assets with no significant increase in credit risk since initial recognition (stage 1)			Assets with a significant increase in credit risk since initial recognition, but with no credit impairment (stage 2)			Assets with credit impairment		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Total debt instruments	**159**	**-**	**-**	**-**	**186**	**-**	**1**	**-**	**356**
Debt securities	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-
Loans and prepayments	159	-	-	-	186	-	1	-	356
Central banks	-	-	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-
Households	159	-	-	-	186	-	1	-	356
Loans and prepayments for products, real guarantees and subordinated items	-	-	-	-	-	-	-	-	-
Sight and with brief notice periods (current account)	-	-	-	-	-	-	1	-	-
Credit card debt	-	-	-	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-	-	-
Reverse repo loans	-	-	-	-	-	-	-	-	-
Other term loans	159	-	-	-	186	-	-	-	356
Prepayments other than loans	-	-	-	-	-	-	-	-	-
Of which: loans secured by property	159	-	-	-	186	-	-	-	352
Of which: other loans with real guarantees	-	-	-	-	-	-	-	-	-
Of which: consumer loans	-	-	-	-	-	-	-	-	-
Of which: home acquisition loans	159	-	-	-	186	-	-	-	354
Of which: project financing loans	-	-	-	-	-	-	-	-	-

At 31 December 2018:

Carrying amount

	Assets with no significant increase in credit risk since initial recognition (stage 1)			Assets with a significant increase in credit risk since initial recognition, but with no credit impairment (stage 2)			Assets with credit impairment		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Total debt instruments	-	1	-	-	-	-	-	-	630
Debt securities	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-
Loans and prepayments	-	1	-	-	-	-	-	-	630
Central banks	-	-	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-	-	-	-
Households	-	1	-	-	-	-	-	-	630
Loans and prepayments for products, real guarantees and subordinated items	-	-	-	-	-	-	-	-	-
Sight and with brief notice periods (current account)	-	-	-	-	-	-	-	-	-
Credit card debt	-	1	-	-	-	-	-	-	2
Trade receivables	-	-	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-	-	-
Reverse repo loans	-	-	-	-	-	-	-	-	-
Other term loans	-	-	-	-	-	-	-	-	628
Prepayments other than loans	-	-	-	-	-	-	-	-	-
Of which: loans secured by property	-	-	-	-	-	-	-	-	621
Of which: other loans with real guarantees	-	-	-	-	-	-	-	-	-
Of which: consumer loans	-	1	-	-	-	-	-	-	2
Of which: home acquisition loans	-	-	-	-	-	-	-	-	385
Of which: project financing loans	-	-	-	-	-	-	-	-	-

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognised as an adjustment to fair value in the Bank's financial statements.

Details of impaired financial assets (doubtful) and not doubtful are presented below based on their maturity dates.

At 31 December 2019

Gross carrying amount/ nominal amount

	Not doubtful				Doubtful								
	Total	Total not doubtful	Not due or outstanding ≤ 30 days	Outstanding > 30 days ≤ 90 days	Total doubtful	Improbable payment not due or outstanding ≤ 90 days	Outstanding > 90 days ≤ 180 days	Outstanding > 180 days ≤ 1 year	Outstanding > 1 year ≤ 5 years	Outstanding > 5 year	Of which: unpaid	Of which: impaired	Real guarantees received on doubtful exposures
Debt instruments at amortised cost	7,191,660	7,190,471	7,190,281	190	1,189	726	-	346	117	-	1,189	1,189	352
Debt securities	310,108	310,108	310,108	-	-	-	-	-	-	-	-	-	-
Public administrations	285,732	285,732	285,732	-	-	-	-	-	-	-	-	-	-
Other financial companies	24,376	24,376	24,376	-	-	-	-	-	-	-	-	-	-
Loans and prepayments	6,881,552	6,880,363	6,880,173	190	1,189	726	-	346	117	-	1,189	1,189	352
Central banks	2,009,191	2,009,191	2,009,191	-	-	-	-	-	-	-	-	-	-
Public administrations	417,532	417,532	417,532	-	-	-	-	-	-	-	-	-	-
Credit institutions	4,143,860	4,143,121	4,143,121	-	739	707	-	-	32	-	739	739	-
Other financial companies	253,637	253,637	253,637	-	-	-	-	-	-	-	-	-	-
Non-financial companies	10,109	10,109	10,109	-	-	-	-	-	-	-	-	-	-
Of which: small and medium sized companies	915	915	915	-	-	-	-	-	-	-	-	-	-
Households	47,223	46,773	46,583	190	450	19	-	346	85	-	450	450	352
Of which: loans secured by residential properties	42,179	41,775	41,585	190	404	-	-	335	69	-	403	403	352
Of which: consumer loans	2,663	2,638	2,638	-	25	10	-	-	15	-	25	25	-
Debt instruments at fair value through other comprehensive income	2,059,592	2,059,592	2,059,592	-	-	-	-	-	-	-	-	-	-
Debt securities	2,059,592	2,059,592	2,059,592	-	-	-	-	-	-	-	-	-	-
Central banks	43,971	43,971	43,971	-	-	-	-	-	-	-	-	-	-
Public administrations	1,555,226	1,555,226	1,555,226	-	-	-	-	-	-	-	-	-	-
Credit institutions	169,909	169,909	169,909	-	-	-	-	-	-	-	-	-	-
Other financial companies	98,375	98,375	98,375	-	-	-	-	-	-	-	-	-	-
Non-financial companies	192,111	192,111	192,111	-	-	-	-	-	-	-	-	-	-
Non-traded debt instruments mandatorily measured at fair value through profit or loss or designated at fair value through profit or loss	30,519	30,519	30,519	-	-	-	-	-	-	-	-	-	-
Debt securities	30,117	30,117	30,117	-	-	-	-	-	-	-	-	-	-
Other financial companies	30,117	30,117	30,117	-	-	-	-	-	-	-	-	-	-
Loans and prepayments	402	402	402	-	-	-	-	-	-	-	-	-	-
Non-financial companies	402	402	402	-	-	-	-	-	-	-	-	-	-
Debt securities other than held for trading	9,281,771	9,280,582	9,280,392	190	1,189	726	-	346	117	-	1,189	1,189	352
Off-balance sheet exposures	2,230,850	2,230,850	-	-	-	-	-	-	-	-	-	-	-
Loan commitments granted	713,894	713,894	-	-	-	-	-	-	-	-	-	-	-
Public administrations	611,429	611,429	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	17,752	17,752	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	81,224	81,224	-	-	-	-	-	-	-	-	-	-	-
Households	3,489	3,489	-	-	-	-	-	-	-	-	-	-	-
Other commitments granted	1,516,956	1,516,956	-	-	-	-	-	-	-	-	-	-	-
Public administrations	100,000	100,000	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	1,408,941	1,408,941	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	5,315	5,315	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	2,606	2,606	-	-	-	-	-	-	-	-	-	-	-
Households	94	94	-	-	-	-	-	-	-	-	-	-	-

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At 31 December 2018

Gross carrying amount/ nominal amount

	Not doubtful				Doubtful								Real guarantees received on doubtful exposures
	Total	Total not doubtful	Total	Total not doubtful	Total	Total not doubtful	Total	Total not doubtful	Total	Total not doubtful	Total	Total not doubtful	
	5,647,768	5,646,863	5,646,862	1	905	33	112	260	500	-	82	905	573
Debt instruments at amortised cost	23,247	23,247	23,247	-	-	-	-	-	-	-	-	-	-
Debt securities	23,247	23,247	23,247	-	-	-	-	-	-	-	-	-	-
Public administrations	5,624,521	5,623,616	5,623,615	1	905	33	112	260	500	-	82	905	573
Other financial companies	3,046,432	3,046,432	3,046,432	-	-	-	-	-	-	-	-	-	-
Loans and prepayments	94,884	94,884	94,884	-	-	-	-	-	-	-	-	-	-
Central banks	2,026,153	2,026,119	2,026,119	-	34	-	-	-	34	-	34	34	-
Public administrations	383,789	383,789	383,789	-	-	-	-	-	-	-	-	-	-
Credit institutions	23,113	23,113	23,113	-	-	-	-	-	-	-	-	-	-
Other financial companies	917	917	917	-	-	-	-	-	-	-	-	-	-
Non-financial companies	50,150	49,279	49,278	1	871	33	112	260	466	-	48	871	573
Of which: small and medium sized companies	45,030	44,221	44,221	-	809	-	107	244	458	-	24	809	573
Households	2,693	2,662	2,661	1	31	17	-	6	8	-	14	31	-
Of which: loans secured by residential properties	1,469,289	1,469,289	1,469,289	-	-	-	-	-	-	-	-	-	-
Of which: consumer loans	1,469,289	1,469,289	1,469,289	-	-	-	-	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	1,268,061	1,268,061	1,268,061	-	-	-	-	-	-	-	-	-	-
Debt securities	68,747	68,747	68,747	-	-	-	-	-	-	-	-	-	-
Central banks	32,990	32,990	32,990	-	-	-	-	-	-	-	-	-	-
Public administrations	99,491	99,491	99,491	-	-	-	-	-	-	-	-	-	-
Credit institutions	41,320	41,320	41,320	-	-	-	-	-	-	-	-	-	-
Other financial companies	41,320	41,320	41,320	-	-	-	-	-	-	-	-	-	-
Non-financial companies	41,320	41,320	41,320	-	-	-	-	-	-	-	-	-	-
Non-traded debt instruments mandatorily measured at fair value through profit or loss or designated at fair value through profit or loss	7,158,377	7,157,472	7,157,471	1	905	33	112	260	500	-	82	905	573
Debt securities	382,744	382,744	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	199,602	199,602	-	-	-	-	-	-	-	-	-	-	-
Loans and prepayments	100,000	100,000	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	19,339	19,339	-	-	-	-	-	-	-	-	-	-	-
Debt securities other than held for trading	79,056	79,056	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	1,207	1,207	-	-	-	-	-	-	-	-	-	-	-
Loan commitments granted	183,090	183,090	-	-	-	-	-	-	-	-	-	-	-
Public administrations	179,445	179,445	-	-	-	-	-	-	-	-	-	-	-
Other financial companies	853	853	-	-	-	-	-	-	-	-	-	-	-
Non-financial companies	2,691	2,691	-	-	-	-	-	-	-	-	-	-	-
Households	101	101	-	-	-	-	-	-	-	-	-	-	-

The transactions considered to be impaired (doubtful assets) by the Bank at 31 December 2019 that are classified into the categories of "Loans and prepayment to credit institutions" and "Loans and prepayments to customers" total EUR 1,189 thousand (EUR 905 thousand at 31 December 2018).

22.8. Changes in, and distribution of, impairment losses

Following are the changes in the impairment losses due to credit risk recognised by the Bank in 2019 and 2018:

At 31 December 2019:

	Opening balance	Changes to the variance in credit risk	Other adjustments	Closing balance
Total adjustment for debt instruments	**(3,006)**	**(1,421)**	**(82)**	**(4,509)**
Adjustments for financial assets without an increase in credit risk since initial recognition Stage 1:	**(1,000)**	**(661)**	**-**	**(1,661)**
Debt securities (Note 7)	(612)	(788)	-	(1,400)
Loans and prepayments (Note 8)	(388)	126	-	(262)
Of which: measurement adjustments jointly calculated	*(1,000)*	*(661)*		*(1,661)*
Of which: measurement adjustments individually calculated	-	-	-	-
Adjustments due to debt instruments with a significant increase in credit risk since initial recognition, but without credit impairment (stage 2)	**(1,744)**	**(586)**	**(82)**	**(2,412)**
Debt securities (Note 8)	(1,744)	(582)	(82)	(2,408)
Loans and prepayments (Note 8)		(4)	-	(4)
Of which: measurement adjustments jointly calculated	*(1,744)*	*(586)*	*(82)*	*(2,412)*
Of which: measurement adjustments individually calculated	-	-	-	-
Adjustments due to debt instruments with credit impairment (stage 3)	**(262)**	**(174)**	**-**	**(436)**
Debt securities (Note 8)	-	-	-	-
Loans and prepayments (Note 8)	(262)	(174)	-	(436)
Of which: measurement adjustments jointly calculated	*(228)*	*(174)*	-	*(402)*
Of which: measurement adjustments individually calculated	*(34)*	-	-	*(34)*

At 31 December 2019:

Gross carrying amount/ nominal amount

	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and Stage 3	
	To stage 2 from stage 1	To stage 1 from stage 2	To stage 3 from stage 2	To stage 2 from stage 3	To stage 3 from stage 1	To stage 1 from stage 3
Total debt instruments	190	-	-	-	707	397
Debt securities	-	-	-	-	-	-
Central banks	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-
Loans and prepayments	190	-	-	-	707	397
Central banks	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Credit institutions	-	-	-	-	707	-
Other financial companies	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-
Households	190	-	-	-	-	397
Commitments and financial guarantees granted	-	-	-	-	-	-

At 31 December 2018:

	Opening balance	Changes due to variances in credit risk	Other adjustments	Other adjustments
Total adjustment for debt instruments	**(58,259)**	**497**	**13**	**(3,006)**
Adjustments for financial assets with no increase in credit risk since initial recognition (stage 1)	**(1,532)**	**532**	**-**	**(1,000)**
Debt securities (Note 7)	(921)	309	-	(612)
Of which: jointly measured value adjustments	(1,532)	532		(1,000)
Of which: individually measured value adjustments	-	-	-	-
Adjustments for debt instruments with a significant increase in credit risk since initial recognition, but with no credit impairment (stage 2)	**(1,749)**	**(8)**	**13**	**(1,744)**
Debt securities (Note 8)	(1,749)	(8)	13	(1,744)
Loans and prepayments (Note 8)	-	-	-	-
Of which: jointly measured value adjustments	(1,749)	(8)	13	(1,744)
Of which: individually measured value adjustments	-	-	-	-
Adjustments due to debt instruments with credit impairment (stage 3)	**(54,978)**	**(27)**	**-**	**(262)**
Debt securities	-	-	-	-
Loans and prepayments (Note 8)	(54,978)	(27)	-	(262)
Of which: jointly measured value adjustments	(157)	(71)	-	(228)
Of which: individually measured value adjustments	(54,821)	44	-	(34)

At 31 December 2018:

	Gross carrying amount/ nominal amount					
	Transfers between stage 1 and stage 2		**Transfers between stage 2 and stage 3**		**Transfers between stage 1 and stage 3**	
	To stage 2 from stage 1	To stage 1 from stage 2	To stage 3 from stage 2	To stage 2 from stage 1	To stage 1 from stage 2	To stage 1 from stage 3
Total debt instruments	-	-	-	-	255	89
Debt securities	-	-	-	-	-	-
Central banks	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-
Loans and prepayments	-	-	-	-	255	89
Central banks	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-
Other financial companies	-	-	-	-	-	-
Non-financial companies	-	-	-	-	-	-
Households	-	-	-	-	255	89
Commitments and financial guarantees granted	-	-	-	-	-	-

22.9. Past-due but not impaired assets

At 31 December 2019 and 2018 the Bank had not recognised any material past-due but not impaired assets in its financial statements.

22.10. Write-off of impaired financial assets

At 31 December 2019 and 2018 the Bank did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection during those years.

22.11. Exposure to real estate risk

The only operations granted by the Bank at 31 December 2019 and 2018 concerning real state exposure are those loans intended to be used for housing acquisition, which are granted to its employees. Following is a detail of the latter:

At 31 December 2019:

	Gross carrying amount	Carrying amount					
		Central banks	Public administrations	Credit institutions	Other financial companies	Non-financial companies	Households
Loans and prepayments	6,881,954	2,009,191	417,531	4,143,456	253,563	10,465	47,046
Real guarantees	-	-	-	-	-	-	-
Of which: loans secured by property	42,178	-	-	-	-	-	42,105
Of which: other loans with real guarantees	3,336,719	-	-	3,246,801	89,863	-	-

A 31 de diciembre de 2018:

	Gross carrying amount	Carrying amount					
		Central banks	Public administrations	Central banks	Otras sociedades financieras	Central banks	Hogares
Loans and prepayments	5,624,523	3,046,432	94,884	2,026,078	383,644	23,003	49,829
Real guarantees	-	-	-	-	-	-	-
Of which: loans secured by property	45,030	-	-	-	-	-	44,821
Of which: other loans with real guarantees	1,346,752	-	-	1,238,555	108,142	-	-

Following is the breakdown of credit with mortgage guarantee to households for house purchase, according to the percentage represented by the total risk over the amount of the last available measurement (loan to value) included in this balance sheets heading as of 31 December 2019 and 2018:

At 31 December 2019:

Carrying amount

	Assets without a significant increase in credit risk since initial recognition (phase 1)			Assets with a significant increase in credit risk since initial recognition, but without credit impairment (phase 2)			Assets with a significant increase in credit risk since initial recognition, but without credit impairment (phase 2)		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Real guarantees	-	-	-	-	-	-	-	-	-
Other term loans	159	-	-	-	186	-	-	-	356
Of which: loans secured by property	159	-	-	-	186	-	-	-	352
Of which: other loans with real guarantees	159	-	-	-	186	-	-	-	354

At 31 December 2018:

Carrying amount

	Assets without a significant increase in credit risk since initial recognition (phase 1)			Assets with a significant increase in credit risk since initial recognition, but without credit impairment (phase 2)			Assets with a significant increase in credit risk since initial recognition, but without credit impairment (phase 2)		
	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days	≤ 30 days	> 30 days ≤ 90 days	> 90 days
Real guarantees	-	-	-	-	-	-	-	-	-
Other term loans	-	-	-	-	-	-	-	-	628
Of which: loans secured by property	-	-	-	-	-	-	-	-	621
Of which: other loans with real guarantees	-	-	-	-	-	-	-	-	385

22.12. Other disclosures on credit risk

The amount of accrued, past-due uncollected receivables on impaired financial assets was not material at 31 December 2019 or 2018 or in the years then ended.

In 2019 and 2018 no guarantees associated with financial assets owned by the Bank were executed in order to guarantee the collection thereof.

23. Exposure to market risk

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognised in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book.

The exposure direct to market risk arises from several financial factors affecting market prices. These factors include mainly, but not only, the following:

Interest rates risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates.

Currency risk

The currency risk to which the Bank is exposed arises from its FX activities in the international capital markets.

Variable income

Represents the risk of incurring losses as a result of a change in stock prices.

Value at Risk (“VaR”) provides an integrated measure of market risk and encompasses the basic elements thereof: interest rate risk, foreign currency risk, equity risk and the risk of volatility of the foregoing factors.

The distribution of the VaR of the trading book by desk at 31 December 2019 and 2018 is as follows:

Thousands of euros

	2019	2018
Money and currency markets	1,263	874
Forex products	254	550
Debt table	730	1,239
Variable income table	247	257
Derivatives products	130	493
Credit table	147	165
Banknotes	19	21

For the operation in certain types of complex exotic options, for which risk management and measurement is very complicated, the general policy is to eliminate this portfolio risk by contracting “back to back” operations (mirror) in the market .

The Board of Directors establishes global limits as part of the establishment of the risk tolerance framework. The limit structure is based on the VaR methodology mentioned above and on the values of maximum real loss authorised with different time horizons.

24. Riesgo de liquidez

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable Cecabank to meet its commitments when recourse to external financing is difficult for a particular period of time.
- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Bank periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Bank has planned measures to enable it to restore the Bank's overall financial equilibrium in the event of a possible shortfall in liquidity.

Liquidity risk management consists of ensuring the availability at all times of the instruments and processes that will enable the Bank to meet its payment commitments on a timely basis, in such a manner that it will have the resources required to maintain sufficient liquidity levels to meet its payments without significantly compromising the Bank's results, and maintain the mechanisms which will enable it to meet those payment commitments if various possible scenarios should arise.

Generally speaking, the Bank has traditionally had various means of raising liquidity, including that of attracting customer deposits, the use of various cash facilities made available by official agencies, and the obtainment of liquidity through the interbank market.

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows.

The Bank also monitors the available liquid assets in order to identify possible sources of liquidity to be used in the event of a liquidity contingency.

The Board of Directors, as part of its oversight function, establishes a framework of liquidity risk limits geared towards ensuring that the Bank complies comfortably with regulatory requirements vis-à-vis its liquidity position, and that it continues to perform transactions on the markets and conduct its business activity in such a way as to ensure the sufficient diversification of its sources of funds. These limits are set on the basis of a series of liquidity ratios whose purpose is to assess and measure the Bank's on-balance-sheet liquidity.

Stress tests are also carried out, combining various scenarios involving restricted access to capital markets, a mass withdrawal of demand deposits, the drawdown of contingent liquidity commitments, and other external market conditions.

In addition, a series of liquidity-crisis early-warning and intensity indicators are monitored on a daily basis and a detailed, permanently updated inventory is kept of the on-balance-sheet assets that are readily convertible into cash.

25. Interest rate risk

Structural on-balance-sheet interest rate risk can be defined as the exposure of an entity's financial and economic position to adverse changes in interest rates, resulting from timing mismatches between the maturity and repricing dates of global balance sheet items. This risk is a quintessential element of the banking business and can have a major effect on the financial margin and the economic value of equity. Consequently, a risk management capable of maintaining interest rate risk at prudent levels is indispensable in order to safeguard and bolster the Bank's position (see Notes 2.6 and 9).

The Bank's business and management efforts focus on achieving a stable, recurring earnings structure and are geared towards preserving the economic value of equity, with a view to guaranteeing the orderly growth of the Bank in the long term.

To attain the objectives described above the Bank has created an on-balance-sheet structural risk limit structure to guarantee that risk exposure levels are within the tolerance level set by senior management. The Board of Directors defines the general framework for the management of the balance sheet and approves the risk limits based on its risk tolerance. Structural risks are managed at short, medium and long term using limits that are approved by the Board itself and monitored on a monthly basis.

Thus, certain limits are set in terms of sensitivity to changes in market interest rates. These changes affect both net interest income and economic value.

Senior management is actively involved in on-balance-sheet risk management through the Asset-Liability Committee (ALCO). This committee is responsible for taking the action required to correct any possible on-balance-sheet risk imbalances.

In order to measure, analyse and control the structural risk management of the balance sheet, an analysis is carried out to measure the excess or defect of the volume of sensitive assets against the sensitive liability, such as unmatched volume (and therefore not covered) and subject to possible variations in interest rates. In this way, exposure to risk is identified by studying the concentration of masses with risk of repricing for temporarily significant periods.

Similarly, in order to include a dynamic analysis of the balance sheet with respect to various interest rate scenarios, it performs simulations of the performance of the net interest margin over a time horizon of one year. This enables it to analyse the effect of changes due to fluctuations in interest rates based on the repricing gaps of the various balance sheet items.

To complete these sensitivity measures, a methodology which is similar to Market VaR is applied to allow the economic value of the capital at risk to be calculated for a one-month time horizon with a confidence level of 99%, taking into account all the risk factors which affect the balance sheet.

26. Risk concentration

26.1. Risk concentration by activity and geographical area

Following is a detail, by geographical area of counterparty residence and type and category of financial instrument, of the distribution of the carrying amount of the Bank's financial assets at 31 December 2019 and 2018 (including measurement adjustments):

Risk Concentration by activity and geographical area. Total activity (book value):

31 December 2019:

Thousands of euros

	Total	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	**7,212,949**	**4,143,589**	**2,920,089**	**87,653**	**61,618**
Public institutions	**2,539,938**	**1,337,251**	**1,202,687**	**-**	**-**
Central administration	1,520,462	317,775	1,202,687	-	-
Other public administrations	1,019,476	1,019,476	-	-	-
Other financial institutions	**838,212**	**612,802**	**194,112**	**31,297**	**1**
Non-financial companies and individual businesses	**587,252**	**513,240**	**63,915**	**10,097**	**-**
Construction and real estate development (including land)	-	-	-	-	-
Execution of civil works	-	-	-	-	-
Other purposes	587,252	513,240	63,915	10,097	-
Large companies	569,335	495,699	63,539	10,097	-
SME's and self-employed	17,917	17,541	376	-	-
Other homes	**47,139**	**46,986**	**153**	**-**	**-**
Homes	44,100	43,976	124	-	-
Consumption	2,606	2,604	2	-	-
Other purposes	433	406	27	-	-
Total	**11,225,490**	**6,653,868**	**4,380,956**	**129,047**	**61,619**

31 December 2018:

Thousands of euros

	Total	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	**6,015,077**	**5,063,950**	**854,043**	**69,562**	**27,522**
Public institutions	**1,899,999**	**839,431**	**1,060,568**	**-**	**-**
Central administration	1,553,330	492,762	1,060,568	-	-
Other public administrations	346,669	346,669	-	-	-
Other financial institutions	**908,839**	**744,840**	**153,573**	**9,992**	**434**
Non-financial companies and individual businesses	**302,024**	**244,545**	**56,485**	**-**	**994**
Construction and real estate development (including land)	-	-	-	-	-
Execution of civil works	-	-	-	-	-
Other purposes	302,024	244,545	56,485	-	994
Large companies	298,415	240,936	56,485	-	994
SME's and self-employed	3,609	3,609	-	-	-
Other homes	**49,930**	**49,790**	**140**	**-**	-
Homes	46,500	46,362	138	-	-
Consumption	2,634	2,632	2	-	-
Other purposes	796	796	-	-	-
Total	**9,175,869**	**6,942,556**	**2,124,809**	**79,554**	**28,950**

Risk Concentration by activity and geographical area. Total activity (book value):

31 December 2019:

Thousands of euros

		Autonomous communities								
	Total	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla La Mancha	Castilla León	Cataluña
Credit Institutions	**4,143,589**	**112,554**	**1,110**	**-**	**2,578**	**-**	**442,958**	**136,871**	**-**	**-**
Public Administrations	**1,337,251**	**104,120**	**100,458**	**75,227**	**-**	**1,050**	**-**	**117,338**	**139,987**	**-**
Central Administration	317,775	-	-	-	-	-	-	-	-	-
Other	1,019,476	104,120	100,458	75,227	-	1,050	-	117,338	139,987	-
Other Credit Institutions	612,802	24,849	993	-	1,920	-	-	-	20,795	4,956
Non- financial societies and individual entrepreneurs	**513,240**	**-**	**-**	**5,893**	**8,060**	**-**	**-**	**-**	**14,960**	**39,770**
Construction and property development	-	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
Other purposes	513,240	-	-	5,893	8,060	-	-	-	14,960	39,770
Large companies	495,699	-	-	896	8,058	-	-	-	14,960	39,210
SMEs and Individual entrepreneurs	17,541	-	-	4997	2	-	-	-	0	560
Rest of households	**46,986**	**-**	**-**	**-**	**-**	**-**	**-**	**299**	**186**	**1**
Houses	43,976	-	-	-	-	-	-	292	186	-
Consumption	2,604	-	-	-	-	-	-	7	-	-
Other purposes	406	-	-	-	-	-	-	-	-	1
Total	**6,653,868**	**241,523**	**102,561**	**81,120**	**12,558**	**1,050**	**442,958**	**254,508**	**175,928**	**44,727**

Thousands of euros

	Autonomous communities								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com, Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Credit Institutions	**-**	**246,668**	**2,336,032**	**-**	**-**	**432,629**	**432,189**	**-**	**-**
Public Administrations	39,165	140,328	16,598	4,404	92,760	122,269	65,772	-	-
Central Administration	-	-	-	-	-	-	-	-	-
Other	39,165	140,328	16,598	4,404	92,760	122,269	65,772	-	-
Other Credit Institutions	**-**	**19,546**	**539,729**	**-**	**-**	**-**	**14**	**-**	**-**
Non- financial societies and individual entrepreneurs	**-**	**54,628**	**338,205**	**-**	**1,668**	**79**	**49,923**	**54**	**-**
Construction and property development	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-
Other purposes	-	54,628	338,205	-	1,668	79	49,923	54	-
Large companies	-	54,628	328,297	-	1,668	-	47,982	-	-
SMEs and Individual entrepreneurs	-	-	9,908	-	-	79	1941	54	-
Rest of households	**-**	**-**	**46,492**	**-**	**-**	**7**	**-**	**1**	**-**
Houses	-	-	43,498	-	-	-	-	-	-
Consumption	-	-	2,589	-	-	7	-	1	-
Other purposes	-	-	405	-	-	-	-	-	-
Total	**39,165**	**461,170**	**3,277,056**	**4,404**	**94,428**	**554,984**	**547,898**	**55**	**-**

31 December 2018:

Thousands of euros

		Comunidades Autónomas								
	Total	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla La Mancha	Castilla León	Cataluña
Credit Institutions	**5,063,950**	**100,471**	**76,972**	**-**	**1,275**	**-**	**408,358**	**45,015**	**-**	**-**
Public Administrations	**839,431**	**82,166**	**17,081**	**-**	**-**	**-**	**-**	**63,637**	**4,549**	**-**
Central Administration	492,762	-	-	-	-	-	-	-	-	-
Other	346,669	82,166	17,081	-	-	-	-	63,637	4,549	-
Other Credit Institutions	**744,840**	**25,347**	**-**	**-**	**540**	**-**	**-**	**-**	**18,318**	**7,468**
Non- financial societies and individual entrepreneurs	**244,545**	**117**	**-**	**377**	**923**	**-**	**-**	**-**	**-**	**26,585**
Construction and property development	-	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
Other purposes	244,545	117	-	377	923	-	-	-	-	26,585
Large companies	240,936	117	-	377	905	-	-	-	-	25,693
SMEs and Individual entrepreneurs	3,609	-	-	-	18	-	-	-	-	892
Rest of households	**49,790**	**1**	**-**	**-**	**-**	**-**	**-**	**320**	**201**	**1**
Houses	46,362	-	-	-	-	-	-	312	201	-
Consumption	2,632	1	-	-	-	-	-	8	-	-
Other purposes	796	-	-	-	-	-	-	-	-	1
Total	**6,942,556**	**208,102**	**94,053**	**377**	**2,738**	**-**	**408,358**	**108,972**	**23,068**	**34,054**

Thousands of euros

	Comunidades Autónomas								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com, Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Credit Institutions	**-**	**382,080**	**3,314,780**	**-**	**-**	**531,537**	**203,462**	**-**	**-**
Public Administrations	**-**	**12,651**	**109,214**	**7,639**	**8,777**	**40,538**	**417**	**-**	**-**
Central Administration	-	-	-	-	-	-	-	-	-
Other	-	12,651	109,214	7,639	8,777	40,538	417	-	-
Other Credit Institutions	**-**	**19,318**	**673,847**	**-**	**-**	**-**	**2**	**-**	**-**
Non- financial societies and individual entrepreneurs	**-**	**25,486**	**161,411**	**-**	**1,220**	**180**	**28,192**	**54**	**-**
Construction and property development	-	-	-	-	-	-	-	-	-
Construction of Civil Works	-	-	-	-	-	-	-	-	-
Other purposes	-	25,486	161,411	-	1,220	180	28,192	54	-
Large companies	-	25,486	158,946	-	1,220	-	28,192	-	-
SMEs and Individual entrepreneurs	-	-	2,465	-	-	180	-	54	-
Rest of households	**-**	**-**	**49,264**	**-**	**-**	**2**	**-**	**1**	**-**
Houses	-	-	45,849	-	-	-	-	-	-
Consumption	-	-	2,620	-	-	2	-	1	-
Other purposes	-	-	795	-	-	-	-	-	-
Total	**-**	**439,535**	**4,308,516**	**7,639**	**9,997**	**572,257**	**232,073**	**55**	**-**

26.2. Concentration of equity instruments

Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Bank at 31 December 2019 and 2018.

31 December 2019:

Thousands of euros

	Financial assets held for trading (Note 6.1)	Non-trading financial assets mandatorily at fair value through profit or loss (Note 6.2)	Financial assets at fair value through other comprehensive income (Note 7)	Non-current assets and disposable groups of items classified as held for sale (Note 10)	Total
Depending on the type of issuer					
Spanish financial institutions	132,375	8,160	-	-	140,535
Other Spanish companies	244,838	337	13,997	-	259,172
Other foreign companies	2,318	-	272	-	2,590
	379,531	**8,497**	**14,269**	**-**	**402,297**

31 December 2018:

Thousands of euros

	Financial assets held for trading (Note 6.1)	Non-trading financial assets mandatorily at fair value through profit or loss (Note 6.2)	Financial assets at fair value through other comprehensive income (Note 7)	Non-current assets and disposable groups of items classified as held for sale (Note 10)	Total
Depending on the type of issuer					
Spanish financial institutions	103,269	18,868	-	-	122,137
Other Spanish companies	135,442	-	10,023	1,015	146,480
Other foreign companies	2,033	225	272	4	2,534
	240,744	**19,093**	**10,295**	**1,019**	**271,151**

27. Other significant disclosures

27.1 Commitments and Contingent liabilities

“Financial Guarantees Provided” are defined as the amounts that would be payable by the Bank on behalf of third parties as a result of the commitments assumed by the Bank in the course of its ordinary business, if the parties who are originally liable to pay fail to do so.

Also, contingent commitments are possible obligations for the Group that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group and that may give rise to the recognition of financial assets.

The breakdown of the balance of Memorandum Items in the balance sheets at 31 December 2019 and 2018 is as follows:

		Thousands of euros
	2019	**2018**
Loan commitments granted		
Public administrations	611,429	100,000
Other financial companies	17,752	19,339
Non-financial companies	81,224	79,056
Households	3,489	1,207
	713,894	199,602
Financial guarantees granted		
Credit institutions	-	52
	-	52
Other commitments granted		
Credit institutions	1,408,941	179,445
Public entities	100,000	-
Other financial companies	5,315	853
Non-financial companies	2,606	2,691
Households	95	101
	1,516,957	183,090
	2,230,851	**382,744**

A significant portion of these guarantees will expire without any payment obligation materialising for the Bank and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

“Financial Guarantees Given” and “Other Commitments Given” include financial guarantees amounting to 1,389,970 EUR thousand at 31 December 2019 (31 December 2018: EUR 46,343 thousand).

Financial guarantees and surety in the amount of EUR 62,804 thousand are also recorded at 31 December 2019 (EUR 70,397 at 31 December 2018).

The commission income received associated with these granted guarantees are recorded in the “Commission income” chapter of the profit and loss account based on their maturity period (see Note 31).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortised cost, of which amounted to EUR 303 thousand at 31 December 2019 (31 December 2018: EUR 274 thousand), were recognised under “Provisions - Provisions for Contingent Liabilities and Commitments” in the balance sheet (see Note 16).

Note 22 contains disclosures relating to the credit risk assumed by the Bank in connection with such financial guarantees provided and contingent commitments made.

27.2. Assets delivered as security

At 31 December 2019 and 2018, assets owned by the Bank had been provided as security for transactions performed by it, as well as for various liabilities and contingent liabilities assumed by the Bank. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2019 and 2018 was as follows:

	Thousands of euros	
	2019	**2018**
Spanish Public Debt classified as financial assets at fair value through other comprehensive income	53,300	575,870
Other Assets classified as financial assets at fair value through other comprehensive income	19,917	45,000
Spanish Public Debt classified as financial Assets Held for Trading	-	16,300
Issued securities by other public organisms classified as financial assets at fair value through other comprehensive income	272,000	81,700
Issued securities by other public organisms classified as financial Assets Held for Trading	-	-
Issued Public Debt by no residents public administrations classified as financial assets at fair value through other comprehensive income	221,000	352,188
Issued Public Debt by no residents public administrations classified as financial Assets Held for Trading	24,000	-
	590,217	**1,071,058**

At 31 December 2019 and 2018, the Bank had securities with a face value of EUR 126,250 and 71,233 thousand respectively as security for the performance of the Bank's obligations relating to transactions with the clearing and settlement services.

Additionally, at 31 December 2019, the Bank had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 1,390,478 thousand (31 December 2018: EUR 306,030 thousand). "Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Bank's financial asset categories in the balance sheets at 31 December 2019 and 2018, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

27.3. Transactions on account of third parties

The breakdown of the most significant transactions on account of third parties at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Financial instruments granted to third parties-		
Equity instruments	90,063,960	54,887,084
Debt instruments	69,152,905	78,887,084
	159,216,865	**133,315,415**
Other financial assets	14,363,890	20,505,195
	173,580,755	**153,820,610**
Conditional bills and other securities received for collection	120,427	112,058
Borrowed securities (Note 27,4)	114,904	68,272
	173,816,086	**154,000,940**

"Financial Instruments Entrusted by Third Parties" in the foregoing table includes mainly the debt securities and equity instruments held by the Bank under the contracts in force for third-party security depository and custody services.

27.4. Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Bank in securities lending transactions are not recognised in the balance sheet unless the Bank sells these securities in short sales transactions, in which case they are recognised as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the balance sheet.

Similarly, securities lending transactions in which the Bank lends securities to third parties are not recognised in the balance sheet. The securities lent can be securities previously lent to the Bank or securities owned by it, and in the latter case these are not derecognised.

Deposits provided or received as security or guarantee for the securities received or lent by the Bank, respectively, are accounted for as a financial asset or a financial liability, respectively, and the interest associated therewith is recognised as interest and similar income or as interest expense and similar charges, respectively, in the income statement, by applying the corresponding effective interest rate.

Following is a detail of the fair value of the financial assets borrowed by the Bank at 31 December 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Equity instruments	261,401	-
Debt instruments	-	-
	261,401	**-**

Following is a detail of the fair value of the financial assets borrowed and lent by the Bank in securities lending transactions at 31 December 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Securities borrowed by the Bank-		
Debt instruments issued by Public sector – Spain (Note 27.3)	114,904	68,272
	114,904	**68,272**

27.5. The Bank's Customer Care Service

Set forth below is a summary of the complaints and claims received by the Bank's Customer Care Service in 2019 and 2018. Certain claims submitted to the Service were not admitted for consideration in 2019 and 2018 because they were claims that affected entities other than the Bank:

	2019	**2018**
Number of complaints and claims received	**2**	**3**
Number of complaints and claims not admitted for processing	1	2
Number of complaints and claims admitted for processing	1	1
Number of complaints and claims resolved	1	1
Number of resolutions in favour of claimants	-	-
Number of resolutions against claimants	1	1
Amount of the indemnity for favourable resolutions (euro)	-	-
Number of pending complaints and claims	-	-

28. Interest income

The breakdown of the most important interest income earned by the Bank in 2019 and 2018, by type of instrument giving rise to it, is as follows:

	Thousands of euros	
	2019	**2018**
Financial assets held for trading	12,998	14,344
Non trading financial assets mandatorily at fair value through profit or loss	417	6,638
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	20,444	29,145
Financial assets at amortised cost	13,326	6,346
Derivatives – hedge accounting, interest rate risk	6,478	6,131
Interest income on financial liabilities	25,145	26,776
Other assets	492	675
	79,300	**90,055**

"Interest Income on Financial Liabilities" in the table above includes the income arising in 2019 and 2018, respectively, from the Bank's on-balance-sheet financial liabilities that bore negative interest rates.

29. Interest expense

The detail of the balance of "Interest Expense" in the income statement for 2019 and 2018, by type of instrument giving rise to them, is as follows:

	Thousands of euros	
	2019	**2018**
Financial liabilities held for trading	9,924	10,149
Financial liabilities at amortised cost	29,500	24,709
Derivatives – hedge accounting, interest rate risk	13,973	4,953
Interest Expense on financial assets / other liabilities	39,212	43,868
Interest cost of pension funds (Note 35)	175	68
	92,784	**83,747**

"Interest Expense on Financial Assets / other liabilities" in the table above includes the expenses arising in 2019 from the Bank's on-balance-sheet financial assets that bore negative interest rates.

30. Income from dividends

Below is a breakdown of this caption in the income statement for 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Financial assets held for trading	10,443	12,803
Non-trading financial assets mandatorily at fair value through profit or loss	1,595	1,723
Financial assets at fair value through other comprehensive income	718	673
	12,756	**15,199**

31. Commission income

Following is a detail of the commission income earned in 2019 and 2018, classified on the basis of the main items giving rise thereto:

	Thousands of euros	
	2019	**2018**
Commissions arising from contingent liabilities (Note 27.1)	301	289
Commissions for contingent commitments	948	267
Commissions arising from collection and payment services	30,271	25,839
Commissions arising from securities services	100,109	98,356
Commissions arising from foreign exchange and foreign banknotes	229	260
Other commissions	10,858	9,348
	142,716	**134,359**

The balance of "Fees and Commissions Arising from Securities Services" in the foregoing table includes, inter alia, EUR 96,559 thousand earned in 2019 (2018: EUR 93,632 thousand) relating to the depository and custody services in connection with securities of third parties deposited at the Bank.

32. Commission expenses

Following is a detail of the commission expenses incurred in 2019 and 2018, classified on the basis of the main items giving rise thereto:

	Thousands of euros	
	2019	**2018**
Commissions assigned to other entities and correspondents	10,172	5,983
Commission expenses on securities transactions	11,265	9,189
	21,437	**15,172**

33. Net gains/losses on financial assets and liabilities

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the income statement for the exercise 2019 and 2018, by type of financial instrument giving rise to them, is as follows:

	Thousands of euros	
	2019	**2018**
Net gains/losses on financial assets and liabilities held for trading	(47,978)	(15,900)
Gains (losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	2,728	(4,477)
Net gains/losses from unsubscribe financial assets and liabilities not valued at fair value through profit or loss, net-		
Financial assets at amortised cost	3	3
Other financial assets and liabilities	29,337	23,427
Net gains/losses on financial assets and liabilities designated at fair value through profit or loss	-	(10)
Net gains/losses resulting from hedge accounting	680	(3,824)
	(15,230)	**(781)**

34. Other operating income

The breakdown of the balance of “Other Operating Income” in the income statement for exercise 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Rental income (Note 12)	1,338	1,279
Income from expenses charged	5,372	12,130
Other income	27,249	34,858
	33,959	**48,267**

The balance of “Other income” in the foregoing table includes the dues collected from the services given to the Confederación Española de Cajas de Ahorros, which amounts in 2019 EUR 11,387 thousand (11,386 thousand in 2018) (see Note 40).

35. Administrative expenses – Staff Costs

The detail of “Administrative Expenses – Staff Costs” in the income statement for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Wages and salaries	33,035	40,383
Social security costs	7,249	7,293
Insurance premiums (Note 2.11.2)	244	181
Termination Benefits (Note 2.11.4)	2,250	785
Contributions to defined contribution plans (Note 2.11.2)	714	698
Normal cost for the year of defined benefit obligations	-	13
Training expenses	250	320
Other staff costs	595	1.369
	44,337	**51,042**

As a result of the obligations imposed by Spanish law on the regulation and supervision of credit institutions and its enabling regulations, and by the EBA guidelines on sound remuneration policies, the Bank pays a portion of the annual variable remuneration of certain employee groups through non-monetary instruments linked to the Bank's value.

The number of the aforementioned equity instruments to be granted to certain members of the identified staff will be conditional on: (i) the annual variable remuneration granted to them; and (ii) the change in the Entity's measurement from the instruments' grant date. Once the amount of the annual variable remuneration has been determined for each member of the identified staff, 50% thereof will be granted in phantom shares.

These instruments will be settled once any retention and deferral periods have elapsed, in accordance with the policy for each member of the identified staff. Following the retention period, the phantom shares will be settled in cash on each of the settlement dates based on the Bank's value at each of these dates. The measurement method used to measure the Entity's value for the purpose of the variable remuneration to be paid through instruments must be based on the equity at 31 December of each year (considering as such the sum of capital, reserves and the portion of profit for the year attributable to reserves).

The settlement schedule for the phantom shares will be the schedule applicable under the policy in force at the time for each member of the identified staff, on completion of each of the deferral and retention periods applicable in each case.

In 2019 and 2018, the average number of employees at the Bank, by level, was as follows:

	2019			2018		
Professional levels	Men	Women	Total	Men	Woman	Total
1 - Lev.I	4	-	4	4	-	4
1 - Lev.II	5	4	9	9	4	13
1 - Lev.III	16	8	24	15	11	26
1 - Lev.IV	30	15	45	32	19	51
1 - Lev.V	32	25	57	33	25	58
1 - Lev.VI	64	55	119	68	60	128
1 - Lev.VII	26	42	68	27	41	68
1 - Lev.VIII	30	55	85	33	64	97
1 - Lev.IX	8	17	25	6	15	21
1 - Lev.X	7	10	17	7	12	19
1 - Lev.XI	3	4	7	9	9	18
1 - Lev.XII	-	1	1	-	1	1
1 - Lev.XIII	1	2	3	-	-	-
2 - Lev.I	1	-	1	-	-	-
2 - Lev.II	3	-	3	1	-	1
2 - Lev.III	-	-	-	4	-	4
Other	5	2	7	8	6	14
	234	**241**	**475**	**256**	**267**	**523**

No employees with a disability greater than or equal to 33% were hired during the 2019 and 2018 fiscal years.

At 31 December 2019, the total number of employees was 475 (2018: 484), of whom 236 were men (2018: 242) and 242 women (2018: 263), representing 50% and 50%, respectively (50% and 50% respectively, at 31 December 2018).

With respect to defined benefit post-employment obligations and long-term pre-retirement obligations (pre-retirements) to current and former employees of the Bank described in Note 2.11 above, a detail of these obligations is presented below, making a distinction between those that are arranged, in full or in part, in pension funds and insurance policies, and those that are not arranged through this type of instrument and where the associated obligation is covered by the recognition of provisions by the Bank:

At 31 December 2019:

Thousands of euros

	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I – II) (**)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV – V) (*)	Total (III + VI)
Instrumented in external pension plans and/or insurance policies	177,731	180,004	(2,273)	-	-	-	(2,273)
Not instrumented in pension plans or insurance policies	-	-	-	41,656	-	41,656	41,656
Total at 31 December 2019	**177,731**	**180,004**	**(2,273)**	**41,656**	**-**	**41,656**	**39,383**

(*)This amount is recognised under “Provisions – Other Long-Term Employee Benefits” on the liability side of the balance sheet as at 31 December 2019 (see Note 16).

(**) This amount is recognised under “Other Assets – Other” in the balance sheet as at 31 December 2019 (see Note 14.1)

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At 31 December 2018:

Thousands of euros

	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I – II) (**)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV – V) (*)	Total (III + VI)
Instrumented in external pension plans and/or insurance policies	171,878	180,067	(8,189)	-	-	-	(8,189)
Not instrumented in pension plans or insurance policies	-	-	-	49,710	-	49,710	49,710
Total at 31 December 2018	**171,878**	**180,067**	**(8,189)**	**49,710**	**-**	**49,710**	**41,521**

(*)This amount is recognised under "Provisions – Other Long-Term Employee Benefits" on the liability side of the balance sheet as at 31 December 2018 (see Note 16).

(**) This amount is recognised under "Other Assets – Other" in the balance sheet as at 31 December 2018 (see Note 14.1)

As can be seen in the table above, a significant proportion of the Bank's pension and other long-term obligations are arranged through external pension plans or are covered by insurance policies and, therefore, in the coming years, the settlement of these obligations is not expected to have a material effect on the Bank's future cash flows. However, the following sections include a sensitivity analysis of the impact that a change in certain variables included in the measurement would have on the amounts presented in these financial statements. It should be noted that the average duration of the pension commitments set out in the preceding tables at 31 December 2019 was 10.91 years for retired employees and there are no active employees at the end of 2019 (at 31 December 2018, 26.03 years for serving employees and 10.54 years for retired employees).

Following is the reconciliation of the beginning and ending balances in 2019 and 2018 of the present value of the defined benefit post-employment obligations and long-term pre-retirement obligations, showing separately the plan assets, the present value of these obligations and the items triggering the changes in these items in these years:

Year 2019:

Thousands of euros

	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I - II)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV - V)	Total (III + VI)
1. Amount at 1 January 2019	**171,878**	**180,067**	**(8,189)**	**49,710**	**-**	**49,710**	**41,521**
2. Current service cost			-	5,055	-	5,055	5,055
3. Expected return on plan assets	-	(2,377)	(2,377)		-	-	(2,377)
4. Interest cost	2,327		2,327	175	-	175	2,501
5. Contributions made by the participants of the plan	-		-	-	-	-	-
6. Contributions made by the Bank	-		-	-	-	-	-
7. Effect of the recalculation on the measurement of the net obligations:	13,497	(7,531)	5,966	650	-	650	6,616
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	(894)	1,250	356	-	-	-	356
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	14,391	(8,781)	5,610	-	-	-	5,610
7.3 Effect of the change in return on plan assets	-	-	-	-	-	-	-
8. Benefits paid	(9,971)	9,971	-	(13,521)	-	(13,521)	(13,521)
9. Past service cost	-	-	-	494	-	494	494
10. Business combinations	-	-	-		-	-	-
11. Plan reductions	-	-	-	(907)	-	(907)	(907)
12. Plan settlements	-	-	-	-	-	-	-
13. Limits on the recognition of net assets for exceeding the maximum available economic benefits	-	-	-	-	-	-	-
14. Early retirement commitments in Exercise	-	-	-	-	-	-	-
15. Other movements	-	-	-	-	-	-	-
Amount at 31 December 2019	**177,731**	**180,004**	**(2,273)**	**41,656**	**-**	**41,656**	**39,383**

Year 2018:

Thousands of euros

	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I – II)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV – V)	Total (III + VI)
1. Amount at 1 January 2018	**188,352**	**195,859**	**(7,507)**	**63,229**	**-**	**63,229**	**55,722**
2. Current service cost	13	-	13	-	-	-	13
3. Expected return on plan assets	-	1,911	(1,911)	-	-	-	(1,911)
4. Interest cost	1,837	-	1,837	68	-	68	1,905
5. Contributions made by the participants of the plan	-	-	-	-	-	-	-
6. Contributions made by the Bank	-	7	(7)	-	-	-	(7)
7. Effect of the recalculation on the measurement of the net obligations:	(7,940)	(7,323)	(617)	(1,333)	-	(1,333)	(1,950)
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	1,520	464	1,056				1,056
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	(9,460)	(7,787)	(1,673)				(1,673)
7.3 Effect of the change in return on plan assets	-	-	-				
8. Benefits paid	(10,387)	(10,387)	-	(13,164)		(13,164)	(13,164)
9. Past service cost	-	-	-	6,151	-	6,151	6,151
10. Business combinations	-	-	-	-	-	-	-
11. Plan reductions	-	-	-	(5,241)	-	(5,241)	(5,241)
12. Plan settlements	-	-	-	-	-	-	-
13. Limits on the recognition of net assets for exceeding the maximum available economic benefits	-	-	-	-	-	-	-
14. Early retirement commitments in Exercise	-	-	-	-	-	-	-
15. Other movements	3	-	3	-	-	-	3
Amount at 31 December 2018	**171,878**	**180,067**	**(8,189)**	**49,710**	**-**	**49,710**	**41,521**

In 2019 the three active members in the defined benefit plan were moved to the defined contribution plan (subplan 3) and therefore no contribution accrued in this respect.

Moreover, the Bank has recorded in the caption "Interest expenses" of the profit and loss account the net amount of the expected return on the plan assets and the cost of interest of the value of the obligation that in the fiscal year 2019 amounted to 175 thousand euros (as of December 31, 2018 it amounted to 68 thousand euros) (see Note 29).

In addition, the Bank recognised a charge of EUR 237 thousand under "Provisions or reversal of provisions" in the income statement for 2019 for the provisions and recoveries of provisions for pensions and similar obligations (2018: EUR 423 thousand).

In 2019 and 2018 the Bank recognised the net amount, adjusted by the corresponding tax effect, of the actuarial gains and losses arising from the measurement of the provision for defined benefit obligations amounting to EUR 4,176 and EUR 432 thousand, respectively, under "Other Accumulated Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss - Actuarial gains and losses from defined benefit pension obligations" in the Bank's equity (see Notes 2.11.2 and 17). The change in this equity item is presented in the accompanying statement of changes in equity.

The assumptions used in the actuarial calculations at 31 December 2019 and 2018 of the defined-benefit pension obligation and the assets used to cover them, included in the foregoing table, were as follows:

Pension obligations at 31 December 2019 and 2018:

- Mortality tables: PERM 2000-P, at 31 December 2019 and 2018.
- Discount rate:
  - For the liabilities, 0.56% (market discount rate) at 31 December 2019 (31 December 2018: 1.39%).
- Adjustable pension increase rate: 1,5% at 31 December 2019 and 2018.
- Expected rate of return on plan assets:
  - 0.56% for the assets included in the pension plan at 31 December 2019 (At 31 December 2018: 1%).
  - 1.39% for the obligations covered by the insurance policy 54.490 at 31 December 2019 (At 31 December 2018: 1.17%).

Other long-term obligations at 31 December 2019 and 2018:

- Mortality tables: PERM/F 2000-P, at 31 December 2019 and 2018.
- Discount rate (market discount rate):
  - 2011, 2012, 2013 and 2015 pre-retirement plan: 0.02% at 31 December 2019 and 0.41% at 31 December 2018.
- Salary increase:
  - 2011 pre-retirement plan: 1.50% at 31 December 2019 and 2018.
  - 2012, 2013 and 2015 pre-retirement plan: 0.00% at 31 December 2019 and 2018.

The discount rate used was the market rate according to the financial term of the flows relating to the obligations and according to the iBoxx yield relating to corporate bonds with a high credit rating (AA).

Set forth below is the sensitivity analysis at 31 December 2019 and 2018, which considers how the value of the defined benefit pension obligations and of long-term obligations would have changed in the event of a 50 basis point upward or downward shift in the discount rate used and in, where appropriate, the pension increase rate, with the other assumptions used remaining unchanged at that date:

Post-employment benefits

A 50 basis point upward/downward shift in the discount rate used at 31 December 2019 would give rise to a EUR 9,524 thousand reduction and a EUR 10,159 thousand increase, respectively, in the value of the obligations (At 31 December 2018: EUR 8,896 and EUR 9,711 thousand, respectively).

A 50 basis point upward/downward shift in the pension discount rate at 31 December 2019 would give rise to a EUR 8,897 thousand reduction and a EUR 9,710 thousand increase, respectively, in the value of the obligations (At 31 December 2018: EUR 8,913 and EUR 9,717 thousand, respectively).

Long-term pre-retirement obligations

A 50 basis point upward/downward shift in the discount rate used would give rise to a EUR 461 thousand reduction and a EUR 472 thousand increase, respectively at 31 December 2018 (At 31 December 2018: EUR 609 and EUR 624 thousand, respectively).

With regard to the sensitivity analysis described above, it should be noted that, for the other actuarial assumptions used in the measurement of the obligations at 31 December 2019, changes that might significantly affect the value of the obligations in the future are not considered likely to occur.

The breakdown of the assets allocated to the coverage of the defined benefit pension commitments and the Bank's other long-term commitments at 31 December 2019 and 2018 shown in the previous tables is shown below, taking into account the nature of the same:

Miles de Euros

	2019			2018		
	Pension obligations	Other long-term obligations	Total	Pension obligations	Other long-term obligations	Total
Pension fund	8,737	-	8,737	4,505	-	4,505
Insurance policies taken out with CASER	171,267	-	171,267	175,562	-	175,562
Total	**180,004**	**-**	**180,004**	**180,067**	**-**	**180,067**

The pension fund referred to in the above table is the Cecabank Employees' Pension plan ("Plan de Pensiones de los Empleados de Cecabank"), which forms part of the pension fund for the employees of the Spanish Confederation of Savings Banks. The latter comprises the defined contribution and defined benefit obligations to CECA´s current and former employees which were transferred to the Bank in year 2012 (see Note 2.11). The detail, by principal asset category and related fair value, of this fund's assets at 31 December 2019 and 2018, is as follows:

	2019	2018
Quoted Spanish government debt	34.80%	34.36%
Quoted private fixed-income securities	41.25%	39.08%
Quoted equity securities	17.39%	20.28%
Cash and bank balances	6.56%	5.47%
Other assets (1)	0.00%	0.81%
	100%	100%

(1) The fund's assets do not include properties or items of property plant and equipment. The assets classified under this item are private equity funds.

With regard to the assets of the pension fund included in the above table, it should be noted that at 31 December 2019 and 2018 there were no financial assets relating to assets issued by the Bank.

There are no active recipients of the defined benefits at the end of 2019 since they were moved to defined contributions (Subplan 3) on 1 January 2019.

36. Administrative expenses - Other general administrative expenses

The detail of this heading in the income statements for 2019 and 2018 is as follows:

Thousands of euros

	2019	2018
Property, fixtures and supplies	2,700	3,075
IT equipment	16,787	22,305
Communications	1,401	1,781
Advertising and publicity	433	471
Technical reports	1,771	2,092
Surveillance and cash courier services	8,606	8,186
Insurance and self-insurance premiums	624	603
Outsourced administrative services	25,360	24,618
Levies and taxes	3,472	3,782
Entertainment and travel expenses	670	628
Association membership fees	1,408	1,406
External personnel	1,485	1,468
Subscriptions and publications	3,883	3,748
Other administrative expenses	1,129	1,824
	69,729	**75,987**

The balance under "Technical reports" records the 2019 and 2018 fees for the services rendered by the Bank's auditor in 2019, PricewaterhouseCoopers Auditors, S.L. and those charged in 2018 by Deloitte, S.L., as follows:

	Thousands of euros	
	2019	**2018**
Audit services	247	324
Other attest services	44	211
Total audit and related services	291	535
Tax counselling services	-	-
Other services	-	211
	-	211
Total professional services	**291**	**746**

The balance under "Technical reports" in 2018 records invoices totalling EUR 107 thousand for commercial relations carried out jointly among Deloitte network companies and Cecabank, S.A.

The services commissioned by Cecabank, S.A. meet the independence requirements of the Spanish Audit Law and its enabling regulations and did not involve the performance of any work that is incompatible with the audit function.

Information on deferred payments to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

In accordance with Final Provision Two of Law 31/2014 (3 December), which amends Additional Provision Three of Law 15/2010 (5 July) which, in turn, amended Law 3/2004 (29 December), on the establishment of measures against late payments in commercial transactions, and relating to the information to be included in the notes to the financial statements regarding deferrals of payments to suppliers in commercial transactions calculated on the basis of the Resolution dated 29 January 2016 by the Audit and Accounting Institute, details of the average payment period for the Bank's suppliers in 2019 and 2018 are as follows:

	2019	**2018**
	Days	**Days**
Average period of payment to suppliers	47.5	42.8
Ratio of transaction settled	47.9	43.3
Ratio of transaction not yet settled	24.1	9.1
	Thousands of euros	
Total payments made	84,372	88,634
Total payments outstanding	1,625	1,355

It should be noted that although under Law 3/2014, of 29 December, the maximum period for payment to suppliers is 60 days, Law 11/2013, of 26 July, established a maximum payment period of 30 days, extendable by agreement between the parties to a maximum of 60 days.

37. Other operating expenses

The breakdown of the balance of "Other Operating Expenses" in the income statements for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Contribution to the Deposit Guarantee Fund (Note 1.11.a)	98	118
Contribution to the Single Resolution Fund (Note 1.11.b)	4,092	3,835
Other Concepts	85	33
	4,275	**3,986**

38. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss

The breakdown of the balance in the income statements for 2019 and 2018 is as follows:

	Thousands of euros	
	Net (Additions)/ Reversals (Charged)/ Credited to Income	
	2019	**2018**
Financial assets at fair value through other comprehensive income		
Debts instruments (Note 22.8)	788	309
Equity instruments	-	-
	788	309
Financial assets at amortised cost (Note 22.8)	633	188
	633	188
	1,421	**497**

39. Amortisation/depreciation

The detail of "Amortisation/depreciation" in the income statements for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Depreciation of Property, plant and equipment (Note 12)	3,932	3,055
Amortisation of intangible assets (Note 13)	40,365	43,149
	44,297	**46,204**

40. Related party transactions

Agreement for the Provision of Services between the Confederación Española de Cajas de Ahorros (CECA) and Cecabank, S.A.

As a result of CECA losing its status as a credit institution in 2014, as described in Note 1.1, on 19 December 2014 a new "Agreement for the Provision of Services between the Confederación Española de Cajas de Ahorros (CECA) and Cecabank, S.A." was signed. This agreement redefines the services that Cecabank, S.A. renders to CECA in accordance with its new status.

Once CECA ceased to be a credit institution the process for CECA to join the Association of Savings Banks for Labor Relations (ACARL) was started. A public document "Overall Assignment of ACARL Assets and Liabilities to CECA" was executed on 30 September 2016 and the latter began to perform the duties falling to ACARL with respect to the negotiation of the Collective Bargaining Agreement for Savings Banks, among others.

Since 4 years have elapsed since that Agreement was concluded, Cecabank has made organisational modifications that recommend a review of the identity of the Departments and specific areas that have been rendering services to CECA by virtue of the aforementioned Agreement, and this has led the Parties to sign an adaptation of the Appendixes to the Service Agreement that reflects the updated services that Cecabank renders to CECA. This agreement was signed on 9 May 2019 but took retroactive effect as from 1 January 2019.

The services that are rendered by Cecabank, S.A. to CECA after this agreement was signed are listed below:

- Rendering of association services:
  - Regarding regulatory and interest representation matters
  - Regarding financial and economic matters

- Regarding cooperation matters
- Regarding communication matters
- Regarding Community Projects Fund matters
- Regarding customer service matters
- Regarding financial education matters
- Regarding institutional relationship matters
- Regarding knowledge management matters
- Regarding technological matters
- Regarding quality matters
- Regarding CSR matters
- Regarding regulatory compliance matters

- Rendering of support services:
    - Regarding legal, tax and governing body support matters
    - Regarding financial planning matters
    - Regarding internal audit matters
    - Regarding computer security matters
    - Regarding operating risk and control matters
    - Regarding resource matters
    - Regarding protocol matters
    - Regarding technological matters
    - Regarding external network support matters

Income received by the Bank for these services, which amounted to EUR 11,387 and 11,386 thousand in 2019 and 2018 respectively, are recognised under "Other operating income" in the income statement for 2019 and 2018 (see Note 34).

Similarly, interest on the at sight account the CECA with the Bank is included under “Interest expense” totalling EUR 3 thousand at 31 December 2019 and 2018. At 31 December 2019 and 2018, the amount of this demand deposit was EUR 27,083 and 26,591 thousand, respectively.

The amount of the fees received by the Bank accrued by the CECA amounted to EUR 5 thousand at December 31, 2019 (31 December 2018: EUR 5 thousand).

At 31 December 2019 and 2018, the demand deposits held by the Bank's senior executives, the members of its Board of Directors and related entities and individuals totalled EUR 957 and 834 thousand respectively. These balances have accrued in the year 2019 an amount of 1 thousand euros, recorded under the heading "Interest expense" in the profit and loss account for the year (without expenses for this concept in 2018). Likewise, the debt contracted for loans amounts to 682 and 574 thousand euros, respectively. These amounts have accrued in the 2019 and 2018 financial years, 2 thousand euros during each financial year, recorded under the heading "Interest income" in the profit and loss account for the financial year.

The breakdown of the balances arising from transactions with jointly controlled entities recognised in the balance sheets at 31 December 2019 and 2018 and in the income statements for 2019 and 2018 is as follows (Note 2.1):

	Thousands of euros	
	2019	**2018**
Assets:		
Financial assets at amortised cost-Loans and advances-Clients	472	788
Liabilities:		
Financial liabilities at amortised cost	117	195
Other financial liabilities	10	-
Losses and Profits:		
Interest Incomes	2	4
Other operating income	854	2,620
Administrative Expenses - Other administrative expenses	64	67
Commissions	1,522	-

These positions relate to the entities classified as "Subsidiaries", since the Bank does not have any investments classified as "Joint ventures" or "Associates" in the accompanying balance sheets as at 31 December 2019 and 2018.

41. Events after the balance sheet date

On 23 October 2019 the Entity reached a brokerage agreement with Kutxabank S.A. under which Cecabank will be designated a depository entity for investment funds, pension funds and voluntary retirement vehicles that are currently deposited at Kutxabank, S.A. This agreement calls for the deposit service, if the process has a successful outcome, to start in March 2020.

Independent of the matters mentioned above, between 31 December 2019 and 20 February 2020, the date on which the Entity's Board of Directors prepared these financial statements, no significant event has taken place that must be included in the accompanying annual accounts to adequately present a true and fair view of the equity, financial situation, results from operations, changes in equity and the cash flows recorded by the Entity.

42. Explanation added for translation to English

These financial statements are presented on the basis of the Bank of Spain Circular 4/2017. Certain accounting practices applied by the Bank that conform with the Circular may not conform with other generally accepted accounting principles.

Appendix I – Subsidiaries included in the Group

At 31 December 2019:

Thousands of euros

			Proportion of ownership Interest (%)			Entity data at 31 December 2019(*)			
Entity	Location	Line of business	Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the year
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.62	-	78.62	3,504	2,601	1,903	210

(*)The company's financial statements at 31 December 2019 have not yet been approved by their shareholders at the respective Annual General Meetings.

At 31 December 2018:

Thousands of euros

			Proportion of ownership Interest (%)			Entity data at 31 December 2019(*)			
Entity	Location	Line of business	Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the year
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.62	-	78.62	4,499	2,391	2,108	24

Appendix II – Information for compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Annual Banking Report

This information is published in compliance with the provisions of Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions which, in turn, transposes Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Pursuant to the aforementioned legislation, credit institutions will be obliged to publish the following information on a consolidated basis relating to the end of the latest reporting period:

a) Name(s), nature of activities and geographical location:

Cecabank, S.A. ("the Bank" or "the Entity") is a bank that was incorporated by public deed executed in Madrid on 17 October 2012. The Entity has been registered at the Mercantile Registry since 12 November 2012 and in the Bank of Spain's Register of Credit Institutions under code 2000. Cecabank, S.A. forms part of the Cecabank Group. Its registered office is at calle Alcalá no. 27, Madrid. The Bank's company object is:

a) The performance of all manner of activities, operations and services inherent to the banking business in general or directly or indirectly related thereto which it is authorised to carry on by current legislation, including the provision of investment and ancillary services and the performance of insurance brokerage activities.

b) The provision of technological, administrative and advisory services to public authorities, as well as to any other public or private-sector entity; and

c) The acquisition, holding, use and disposal of all types of marketable securities.

The Cecabank Group carries on its activity in Spain. However, it has two branches in London (United Kingdom) and Lisbon (Portugal), representative offices in Paris (France) and Frankfurt (Germany) and one subsidiary in Belgium.

The Cecabank Group is composed, in addition to the Parent, Cecabank, S.A. of Trionis S.C.R.L., incorporated in 1990, set in Brussels (Belgium) whose company object is the development and maintenance of the international payment services operative.

b) Turnover:

Turnover at the Cecabank Group is defined as gross income, which amounted to EUR 211,171 thousand in 2019 and EUR 250,551 thousand in 2018.

c) Number of employees on a full time equivalent basis:

At 31 December 2019, the Cecabank Group had 477 full-time employees (a further six had reduced working hours and four worked part-time). At 31 December 2018, the Group had 478 full-time employees (a further six had reduced working hours and four worked part-time).

d) Gross profit or loss before tax:

The Cecabank Group's gross profit before tax at 2019 year-end amounted EUR 62,851 thousand (2018: EUR 88,736 thousand).

e) Tax on profit or loss:

Tax on the profit for the year ended 31 December 2019 amounted to EUR 17.872 thousand (2018: EUR 25.247 thousand).

f) Public subsidies received:

The entity has not received any subsidies during the year 2019 and 2018.

g) g) In order to comply with Article 87.3 of the aforementioned Law, it is stated that the return on the Group's assets, calculated as the result of dividing the Group's consolidated profit for 2019 by the total balance sheet, was 0.38% at 31 December 2019 (31 December 2018: 0.66%).

7. Annual Accounts 2019

Cecabank, S.A.
Individual Annual Accounts, management report and report corresponding audit to the 2019 financial year.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Directors' Report for the year ended 31 December 2019

The main aim of this directors' report is to provide information on the most significant activities carried on by Cecabank in 2019, to present the results obtained in comparison with the budget, and to disclose both the most significant matters relating to risk management and the activities that will be carried out in order to comply with the strategic lines of action defined for 2020.

1. Strategic Plan 2020 and development of the business

Cecabank is in the final stages of the Strategic Plan that it defined in 2016. The defined strategy is based on 3 essential pillars: 1) strengthening of recurring income; 2) increase in the customer base; 3) consolidate its national leadership in the Securities Services market. It also presents specific targets to be attained in 2020 with respect to the following business indicators:

- Gross margin of EUR 270 million.
- Efficiency between 40% and 45%.
- Profitability within a range of 9% and 11%.
- Solvency between 20% and 25%.

In 2019 the Entity continued to roll out this strategy, making the necessary adjustments and adaptations when the context and the environment have so required, but always maintaining the strategic essentials intact.

The business model included in the Strategic Plan is structured into 3 large lines of business, for which specific strategies have been developed:

1. **Securities Services**, focused on maintaining the leadership of the depository business through acquisition opportunities that arise in the domestic market, expanding the validity of existing contracts and supplementing the services offered within the Securities Services value chain and promoting the entry into other markets.

2. **Treasury,** focused on seeking profitability despite the difficult economic context, by offering new services and maintaining the leadership held in the Notes business in Spain.

3. **Banking services,** providing the market with multiple solutions in a mature business that is conditioned by new players and regulatory changes, with the objective of attaining and increasing the degree of customer loyalty, generating economies of scale and establishing collaborate of models in order to obtain new business.

Furthermore, the Strategic Plan presents different components for each of the core businesses:

- Services that form part of the **main stage** in each of the 3 main lines of business, the objective of which is to maintain and consolidate traditional businesses.

- **Incremental initiatives:** In 2016 nine initiatives in total were identified to grow the businesses. Over recent years these initiatives have been developed in a heterogeneous manner, and some of them have redirected their initial strategy to adapt to changes in the market and in customer interests. New initiatives have been created in order to respond to the changing needs of our customers and to new business opportunities, while others have been closed or stopped for various reasons.

- Internal projects for the **cultural transformation** of the Entity.

- **Disruptive levers:** In this section the Strategic Plan calls for the continuous analysis of potential corporate opportunities that could substantially change the size of the Entity.

In overall terms, we note that in 2019 the following development took place with respect to each of the components of the Strategic Plan:

- **Main Stage:** the development of profits has been affected by several items, such as: the interest rate situation and market volatility, lower growth in fees associated with the evolution of fund assets and the delay in implementing some projects in progress. All of these factors have had an impact on the evolution of the **gross margin**.

  Due to the decline in revenue, efficiency plans have been implemented to seek cost savings.

- Three of the **incremental initiatives** have been moved to the main stage due to complying with the objectives established in the Strategic Plan (digital payments, currency exchange in means of payment networks and FX-Sharing). A new initiative, Direct Home Service, has also been identified and is already fully operational. There is another being defined but yet to be approved that has a high degree of innovation. The rest of the incremental initiatives continue to work to attain the established objectives.

- Over the past three years intense work has been performed on the internal **Transformation Initiatives** and significant prepayments have been made with respect to their implementation and attained maturity level, driving actions to promote a culture of change within the Entity. One of the projects with the most effect in 2019 was in the area of sustainability. This year, within our commitment to the environment, we have measured our Greenhouse Gas Footprint and we are working on an action plan to reduce our "carbon footprint".

- **Disruptive Levers** has included the analysis of potential corporate transactions in practically all of Cecabank's business areas. In 2019 the corporate transactions relating to Securities Services are notable.

The overall targets established for the final horizon of the Strategic Plan, which focus on gross margin, efficiency, profitability and solvency, were all at an average level of compliance exceeding 80% at the end of 2019.

The development of the three lines of business in 2019, together with the services and initiatives they involve, are set out below:

1.1 Securities Services

The Securities Services business consists of 2 large lines of services (Depository and Securities) and two active incremental initiatives (FADO Project, which consists of the development of the Securities Services business in the Portuguese market and the expansion of the Securities Services value chain).

The low growth of the value of off-balance sheet assets in the market, the decline in the average fees for marketing lower value funds, together with the delay in the transfer of BPI funds in Portugal have given rise to growth that was lower than expected in this line of business.

However, growth continues in terms of deposit volume, with EUR 119,143 million and EUR 158,749 million in balances in custody.

The Securities Services business has focused its efforts on the strategic projects making up Cecabank's value proposal in the Securities Services area, and the expectation is that it will have a significant impact on the income statement in 2020.

The incremental business initiatives in Securities Services are:

- **FADO project** (development of the Securities Services business in the Portuguese market): All of the steps necessary to develop the business have been completed over the course of 2019 with the objective of commencing the effective rendering of services for our first customers in 2020.

- The initiative to **Expand the Securities Services value chain** consists of several projects:

- The Complete Securities Solution is already operational for two customers and is being implemented for another two. These are innovative projects that complete the Entity's value chain through dedicated internal resources and external resources through various specialised suppliers.

- International custody, and in 2019 relevant customers joined the service.

- The launch of the external operating functions service relating to the settlement and custody of securities market transactions.

- Furthermore, within the framework of innovation, we are designing a new initiative relating to the Cryptoasset world. This is an initiative that is at an incipient stage.

1.2 Treasury

The main stage consists of 3 services (financial activity, execution of fixed income and Notes) each with incremental initiatives (Access to the primary market, bond platform, securities lending program and home delivery of foreign currency).

The Financial Margin has been affected by the context of interest rates, market instability and geopolitical conflicts. Given this scenario, Cecabank has continued with its customer diversification strategy and the creation of new products.

The Notes area has developed favourably as a result of the increase in the volume of customer purchases and the good performance of the tourism industry.

The Equities Execution initiative is a fully operational service that serves as a point of entry for new customers and a mechanism to increase the loyalty of existing customers:

The incremental initiatives in current businesses notably include:

- **Bond platform:** under review based on its development with respect to the premises and expectations established in the Strategic Plan.

- **Securities Lending:** continues on "stand-by" until definitive approval of the regulations that will allow its development has been obtained.

- **New initiative - Home delivery of foreign currency.** This service is fully operational and it launched during the final quarter of the year. It seeks to supplement the service rendered in the Notes area.

1.3 Banking services

The Banking Services line of business includes 9 different services (Payment systems, Offset and Discount; External Network; Means of Payment; Treasury and Risk Support Platform; Financial Reporting; Interactive Services; Technology Services; Association Services and Bank Training School), together with 5 incremental initiatives (Extension of Digital Services, Digital Payment Platform, Currency Exchange in Payment Networks, FX Sharing and Blockchain).

Banking Services revenue was in line with the budget, although performance was heterogeneous. At a further level of detail and grouping the revenue by nature of the service rendered, we note:

The Payments business (grouping together Payment Systems, Offset and Discount, External Network, Means of Payment and the FX Sharing and Currency Exchange in Payment Networks initiatives) ended above budget, thanks to the favourable performance of all of its services and initiatives:

- A review and adaptation of rates for the **Payments Service and Offset and Discount service** to the content of the service rendered has been performed and the transfer business has increased. We note the recruitment of new entities for the SNCE representation service.

- **External Network**. Good performance by all foreign offices (London, Paris and Frankfurt). The External Network houses the FX Sharing incremental initiative, which in 2019 obtained relevant international customers.

- **Means of Payment** showed positive performance supported by the use of cards and consumption, as well as in the added value services provided, notably including the strategic incremental initiative of the foreign-currency exchange in payment networks service, which has exceeded expectations and is used by relevant Spanish customers.

The two Payment incremental initiatives (**FX Sharing and Foreign-currency Exchange in Payment Networks**), has been moved to the main stage as it has met the objectives established in the Plan.

The Digital Solutions business (grouping together the Support Platform for Treasury and Risk, Financial Reporting, Interactive Services and Technology Services, as well as the incremental initiatives for the Extension of Digital Services and the Digital Payment Platform) ended the year in line with the budget:

- The **Support Platform for Treasury and Risks** focused its commercial efforts on extending the CVA (Credit Valuation Adjustment) and on the development of the new SFTR (Securities Financing Transaction Regulation) service to offer added value to customers, thereby increasing their loyalty.

- **Reporting**. This item was below the budget as a result of the delay in the entry of customers into the basic module and the development of some projects.

- **Interactive Services**. Favourable development supported by the renewal of electronic banking contracts, the increase of API platform customers and the increase in digital and immediate payment operations and users.

- **Technology Services**. The agreements reached for the rendering of outsourcing services are notable and they arose through the creation of ecosystems with leading partners.

The growth of both users and digital payment volumes in the incremental initiatives has allowed the **Digital Payments Platform** to attain the established objectives and to be moved on to the main stage. In the case of the **Extension of Digital Services**, we have completed the projects involving the new electronic invoicing platform and the API platform as they are both fully operational and have therefore been moved to the main stage. The initiative is therefore now involved with the monitoring of the electronic **Mandate Project**, which is still in the development stage.

The Association and Other Services business (grouping together the Bank Training School, Association and Support Services and Other Banking Services and Block chain, which is still being defined and seeking business opportunities) came in below budget due to the fact that the revenue generated by the training program involving the law on real estate lending contracts was less than projected.

1.4 Internal transformation

The Strategic Plan involved a series of initiatives addressing the transformation of the Entity's culture. In 2018 all of these initiatives were converted into the Cultural Transformation Project CKBe Smart.

The project's main objectives are the extension of new ways of working that allow time-to-market to be reduced and to increase efficiency thanks to a new customer focused culture. We note the following with respect to 2019:

- Cultural transformation and talent management measures, notably including telecommuting, flexible hours, talent maps, internal mobility, performance management systems and objective-based remuneration.

- We are encouraging new ways of working by extending the use of agile methods. With this objective, we have intensified training on these types of methods and an Agile office has been launched consisting of agile internal and external coaches that closely monitor the projects.

- We have designed a new workspace model with an increased dedication to collaborative and flexible spaces that facilitate the implementation of new ways of working. In this line, we have launched the 0 Paper Project which has the objective of reducing the use of paper as much as possible through review, digitalisation, archiving and process adaptation measures to reduce the need to use paper.

- All of these methods are accompanied by the design of a Digital Workplace model that pursues making the necessary computer tools available to users so that they can work comfortably without paper and securely from any location.

This is just the start, since the internal transformation project does not have a set and as it is a manner of understanding work and will form part of the Entity's culture and, accordingly, it will be adapted to market and environment requirements at any given moment, which will provide flexibility to the organisation in an increasingly changing market.

One of the challenges in the financial sector environment is finding a space in the sustainability area. This year Cecabank obtained significant prepayments that show its commitment to society. Work was performed on three large pillars in 2019:

1. **Environment:** We measured the Greenhouse Gas Effect Footprint (known as the "Carbon Footprint") through the verification by AENOR of the results obtained. The data shows that our footprint fell by 13.8% in 2019 thanks to the savings measures resulting from the implementation of initiatives such as the ISO 50001 Energy Management System. We are preparing an action plan to continue with this reduction throughout 2020.

   We also launched the **0 Paper** project which reduced total printing in 2019 by nearly 30% compared to last year and it includes a clean desk protocol that promotes the recycling of waste at the office.

2. The **social action policy** includes the "You Choose" Program, in which more than 80% of employees participated in 2019 and to which EUR 100,000 was donated to NGOs and foundations selected by employees and contributions were made to two natural catastrophes such as Tropical Cyclone Idai and the floods caused by Dana. It also includes the employee volunteer program for secondary school children called "Improve society, DIGITALISE IT".

3. Our commitment to **Good Governance** is set out in the Strategic Plan through a Corporate Governance initiative to obtain the best market standards for good governance. The Board performs a self-assessment in this respect on an annual basis. Furthermore, in 2019 an external analysis was performed and will result in an action plan. Another action in this area was the creation of the Mobile Risk Control unit to adapt the entity to the best internal governance standards in terms of the risk management and control model and to clarify the boundaries between the first and second line of risk defence.

1.5 Strategic business objectives

Supplementary to the Strategic Plan and the Entity's budgets, certain commercial targets are defined every year to promote and intensify the Entity's commercial activities to attain the highest impact possible on results.

In general, in 2019 the effort and results of the commercial activities were notable. This intense commercial activity was particularly relevant in Cecabank's non-traditional market (77%), with the objective of obtaining new customers and continuing with the diversification of revenue. We expect the impact of 2019 commercial activities on results to be significant in 2020.

The attainment of the objectives established for 2019 gave rise to a heterogeneous result:

	Objective	Degree of compliance
New billing	€ 11.2 M	349%
New income	€ 14.8 M	63%
Contracted negotiations	134	128%
New customers	50	68%

New invoicing - This covers estimated annualised revenue from the new contracts that were obtained during the period. The objective for all of 2019 was EUR 11.2 million and we actually obtained EUR 39.2 million, primarily due to the closing of certain corporate operations in the Securities Services area. However, discounting the success of unique transactions and thanks to the intense commercial activity, this objective would have been met regardless.

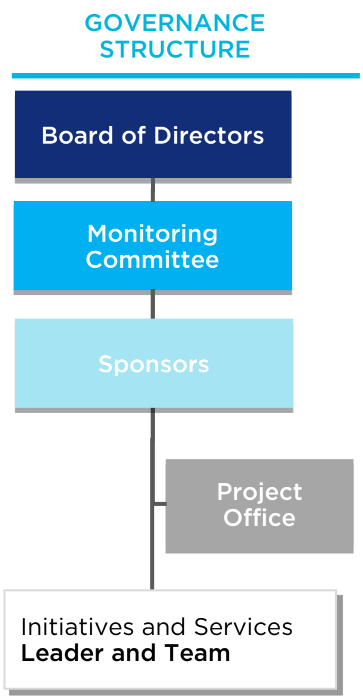
New revenue - This item records the actual impact on the income statement of the new contracts obtained during the year in progress (EUR 9.3 million). Despite not attaining the objective as a result of the delay in the implementation of some projects, the "quality" of that revenue is notable as it mainly represents recurring revenue that will have an impact in coming years.

Contracted negotiations - These records all new negotiations or renegotiations successfully completed and for which the estimated revenue exceeds EUR 10,000/year. The objective for the year was 134 negotiations and it ended with a total of 171 contracted negotiations. The contribution of some lines of business in attaining the objective is notable (i.e. Interactive Services, Reporting and Payments, Offset and Discount).

New customers – This records the customers that have contracted a service or product and have never before been a customer or to whom no service had been rendered by Cecabank for 3 or more years. Despite obtaining new customers, the rate is lower than in past years and somewhat lower than the established target for 2019 (34 versus 50). The Treasury business has traditionally been one where new customers enter, but as a result of the less favourable development of the financial market this year fewer activities have taken place with new counterparties.

1.6 Governance model in the Strategic Plan

The governance model in the Strategic Plan was maintained in 2019 to ensure compliance with the targets established in the Plan. This governance model consists of several monitoring levels:



The **Board of Directors** receives a complete monitoring report on a quarterly basis that provides details of the evolution of the implementation of the Strategic Plan, the main stage and on strategic initiatives. These reports are debated by the Board of Directors.

In addition, in 2019 the Board of Directors played a relevant role in the taking of decisions regarding the Entity's strategy giving rise to two important strategic outputs, one consisting of the 6-month report and the other is the annual monitoring report. Both outputs have resulted in the adoption of strategic decisions that have allowed some deviations that were occurring during the year to be corrected.

The Strategic Plan Monitoring Committee (CSPE) met monthly during 2019 to review the Strategic Plan overall using the approved monitoring method. All of the incremental initiatives have been reviewed in depth by the responsible persons on that Committee.

2. 2019 statement of profit or loss

	Actual 2019 (*)	Budget 2019 (*)	Variance	
			Amount (*)	%
Financial margin (**)	59,290	84,114	(24,824)	(30)
Fee and commission and operating income (***)	150,963	163,504	(12,541)	(8)
Gross income	**210,253**	**247,618**	**(37,365)**	**(15)**
Operating expenses (including provisions) (****)	(148,223)	(164,224)	16,001	(10)
Profit from operations	**62,030**	**83,395**	**(21,365)**	**(26)**
Other income and expenses	1,027	0	1,027	-
Profit before tax	**63,057**	**83,395**	**(20,338)**	**(24)**
Income tax	(17,872)	(24,185)	6,313	(26)
Profit for the year	**45,185**	**59,209**	**(14,024)**	**(24)**

(*) Amounts in Thousands of euros.

(**) Including net interest income, dividend income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets and liabilities designated at fair value through profit or loss, gains or losses from hedge accounting, exchange differences and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.

(***) Including fee and commission income, fee and commission expenses, other operating income and other operating expenses.

(****) Including administrative expenses, the depreciation and amortisation charge, provisions or reversal of provisions, and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.

Following is an analysis of the various headings making up the income statement:

- **Financial margin:** this figure came in EUR 24.8 million under budget, mainly because of the current situation in the interest rate market, the delay in the expected interest rate hike, with the concomitant lack of opportunities to earn a return, and a liquidity surplus involving a higher-than-expected cost. Geopolitical tensions throughout the year also contributed to increased market volatility.

- **Commissions and operating products:** They have been below the figure foreseen in the budget by 8%, mainly due to a less favourable evolution of Securities Services with respect to the forecasts, which is caused by the decrease in the average commissions of the funds deposited and the delay in the implementation of some of the strategic projects. In the Treasury area, commissions have been slightly lower in financial activity and within Banking Services, commissions have behaved slightly above expectations.

- **Gross income:** reflects all the net income obtained from operations, which amounted to EUR 210 million, down 15% on the budget for the reasons mentioned above.

- **Operating expenses:** with regard to the headings that make up the operating expenses, savings have been achieved in all items: personnel expenses have been reduced by 10% due to the departures derived from the separation plan that was developed between 2016 and 2018 and the adjustment of this expense concept as a consequence of the evolution of the activity compared to the forecasts included in the budget; Other administrative expenses have decreased by 6%, reflecting the measures adopted in the Efficiency Plan started in the year, and the amortization has been 7% lower than the budgeted figure, due to the variable component based on the income originated at Securities Services.

- **Profit for the year:** the actual net profit after tax was EUR 45.2 million, down 24% on the budget.

In line with prior years, profit will not be distributed and reserves will not be appropriated until the Entity's financial statements are approved, based on its comfortable solvency position.

3. External credit ratings

Las calificaciones otorgadas a Cecabank al 31 de diciembre de 2019 por las agencias internacionales *Fitch Ratings, Moody's y Standard & Poor's*, son las siguientes:

	Short-term	Long-term
FITCH RATINGS	F-3	BBB-
MOODYS	P-2	Baa2
STANDARD & POOR'S	A-2	BBB+

In 2019 Standard & Poor's improved its rating of Cecabank to BBB+. When rating the Entity, the agencies generally consider Cecabank's business model consolidation to be positive, which has brought it to a national leadership position in the securities depository and custody business while diversifying its service portfolio. All of them note its capital strength, which is combined with a conservative risk profile that is adequately controlled.

4. Risk management

Notes **22, 23, 24, 25 and 26** to the Entity's financial statements include the information relating to its risk management objectives, policies and procedures, as well as its exposure by type of risk.

5. Significant events after the reporting period

On 23 October 2019 the Entity reached a brokerage agreement with Kutxabank S.A. under which Cecabank will be designated a depository entity for investment funds, pension phones and voluntary retirement vehicles that are currently deposited at Kutxabank, S.A. This agreement calls for the deposit service, if the process has a successful outcome, to start in March 2020.

Independent of the matters mentioned above, between 31 December 2019 and 20 February 2020, the date on which the Entity's Board of Directors prepared these financial statements, no significant event has taken place that must be included in the accompanying annual accounts to adequately present a true and fair view of the equity, financial situation, results from operations, changes in equity and the cash flows recorded by the Entity.

6. Objetivos de negocio para el ejercicio 2020

The business objectives next year are one of the main levers that will allow the goals established in the Strategic Plan to be attained and to ensure that the Entity has the foundation, knowledge and human team necessary to reach those goals.

Objectives

New billing			New income			Contracted negotiations			New customers		
2019 Objective	2019 Exercise	2020 Objective	2019 Objective	2019 Exercise	2020 Objective	2019 Objective	2019 Exercise	2020 Objective	2019 Objective	2019 Exercise	2020 Objective
€ 11.2 M	€ 39.2 M	€ 9.9 M	€ 14.8 M	€ 9.3 M	€ 29.7 M	134	171	161	50	34	46

A series of premises have been used to set the business objectives for 2020:

- The 2020 objectives are an ambitious **"target"** that will allow the goals established in the Strategic Plan to be attained by directing business "tension" towards the strategic objectives.
- Compliance with the 2020 objectives will give rise to **"growth"** that will improve the revenue from prior years.
- **"Alignment with the budgets"** established by the various business units at Cecabank.

The business activity targets for 2020 are as follows:

EUR 9,894 thousand in new potential invoicing, or the potential invoicing from the new contracts. The target established for this indicator is the most conservative of all of them due to the fact that it does not include the impact of the potential unique/corporate transactions involving the assignment of depository business.

EUR 29,700 thousand in new revenue during the year (actual 2020 revenue from new contracts). This is the most important indicator and, in turn, the most ambitious.

161 contracted negotiations > EUR 10,000, which represents more than 13 agreements/month for contracts or renewals.

46 New customers. Despite the difficulty to maintain the constant growth of this indicator, the target set for 2020 shows the commitment to diversify the customers in the profit and loss account established in the Strategic Plan.

7. Treasury share transactions

In the period from 1 January to 31 December 2019, there were no treasury shares on the Bank's balance sheet.

8. Payments to suppliers

Pursuant to Article 262 of the Consolidated Spanish Limited Liability Companies Law, Note 36 to the Entity's financial statements includes the disclosures on the periods of payment to suppliers.

The information regarding investments in R&D+i and employees with disabilities is presented in the Non-Financial Information Statement included in the consolidated Directors' Report for Cecabank.

On the other hand, with regard to the non-financial information statement, reference is made to that contained in the consolidated management report of the Cecabank Group, of which Cecabank, S.A. is a part, and whose consolidated annual accounts are deposited in the Mercantile Registry of Madrid.

Authorisation for issue of the financial statements and directors' report

Certificate to attest that the Board of Directors of Cecabank, S.A., at the meeting held on 20 February 2020, authorised for issue the Financial Statements and Directors' Report of Cecabank, S.A. for 2019, which documents were transcribed, including this certificate, on the obverse of 117 sheets of officially stamped paper, signed below by all the members of the Board of Directors of Cecabank, S.A.

Madrid, 20 de febrero de 2020

Mr. Manuel Azuaga Moreno
Non-executive chairman. Spanish national identity card number (D.N.I.): 24.750.256 W

Mr. José María Méndez Álvarez-Cedrón
Director – General Manager. Spanish national identity card number (D.N.I.): 33.858.605 Y

Mr. Francisco Botas Ratera
Director. Spanish national identity card number (D.N.I.): 32.782.987 Y

Mr. Santiago Carbó Valverde
Director. Spanish national identity card number (D.N.I.): 25.393.887 R

Mr. Francisco Javier García Lurueña
Director. Spanish national identity card number (D.N.I.): 14.576.670 Y

Mrs. María del Mar Sarro Álvarez
Director. Spanish national identity card number (D.N.I.): 50.292.331 W

Mr. Víctor Manuel Iglesias Ruiz
Director. Spanish national identity card number (D.N.I.): 25.143.242 X

Mrs. Carmen Motellón García
Director. Spanish national identity card number (D.N.I.): 09.754.790 F

Mr. Antonio Ortega Parra
Director. Spanish national identity card number (D.N.I.): 22.889.335 B

Mr. Javier Pano Riera
Director. Spanish national identity card number (D.N.I.): 35.046.035 S

Mr. Jesús Ruano Mochales
Director. Spanish national identity card number (D.N.I.): 33.518.307 Q

Mrs. Julia Salaverría Monfort
Director. Spanish national identity card number (D.N.I.): 15.951.097 E