ABANCA Corporación Bancaria, S.A.

Financial Statements
31 December 2019

Management Report
2019

(With Independent Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259C
28046 Madrid

Independent Auditor's Report on the Financial Statements

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of ABANCA Corporación Bancaria, S.A.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of ABANCA Corporación Bancaria, S.A. (the "Bank"), which comprise the balance sheet at 31 December 2019, and the statement of profit or loss, statement of comprehensive income and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Bank at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 1.2 to the accompanying financial statements) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
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N.I.F. B-78510153

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Key Audit Matters

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

Impairment of the loans and advances to other debtors portfolio (see notes 2.9 and 9 to the financial statements)

Key audit matter	How the matter was addressed in our audit
For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) (see note 9.d) according to whether a significant increase in credit risk since their initial recognition has been identified or whether the financial assets are credit-impaired. For the Bank, establishing this classification is a relevant process inasmuch as the calculation of the credit risk provision varies depending on the category and location of the different financial assets. Impairment is calculated based on an expected loss model, which the Bank estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Individual provisions consider estimates of future business performance and the market value of collateral provided for credit transactions. For the collective analysis, estimates of expected losses are essentially based on automated processes that use large databases, models and parameters to estimate provisions, and require past, present and future information to be considered. They are complex in their design and implementation, and entail recalibration, validation and model contrasting processes. The consideration of this aspect as a key audit matter is based both on the significance for the Bank of the loans and advances to other debtors portfolio and on the relevance and complexity of the process for classifying financial assets for the purpose of estimating impairment thereon and of the calculation of that impairment.	Our audit approach included assessing the relevant controls linked to the processes of estimating impairment of the loans and advances to other debtors portfolio and performing different tests of detail on that estimate. Our procedures related to the control environment focused on the following key areas: • Governance: identification of the credit risk management framework and relevant controls. • Accounting policies: assessment of their conformity to applicable accounting regulations. • Classification of financial assets on the basis of their credit risk in accordance with the criteria defined by the Bank, particularly the criteria for identifying and classifying refinancing and restructuring transactions. • Testing of the relevant controls relating to the information available for the monitoring of loans outstanding. • Collateral and guarantees: evaluation of the design of the relevant controls over the management and measurement of collateral and guarantees. • Evaluation of the process for estimating both individual and collective provisions for expected losses. • Databases: evaluation of the integrity, accuracy, quality and updating of the data and of the control and management process in place. Our tests of detail on the estimates of impairment of the loans and advances to other debtors portfolio basically encompassed the following:

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Impairment of the loans and advances to other debtors portfolio (see notes 2.9 and 9 to the financial statements)	
Key audit matter	How the matter was addressed in our audit
	• With regard to the impairment of individually significant transactions, we selected a sample from the population of significant risks for which there was objective evidence of impairment and assessed the adequacy of the provisions recognised. • With respect to the impairment provisions estimated collectively, we evaluated, together with our credit risk specialists, the methodology used by the Bank, assessing the integrity of the input balances for the process and validating the correct functioning of the calculation engine. We also assessed the quality of the transactional data used to estimate impairment. Lastly, we evaluated whether the information disclosed in the notes to the financial statements is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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Recoverability of deferred tax assets
(see notes 2.13 and 26 to the financial statements)

Key audit matter	How the matter was addressed in our audit
Under the Bank's accounting policies, deferred tax assets are only recognised when it is considered probable that sufficient future taxable profit will be obtained against which they can be utilised. Management of the Bank evaluates the Bank's ability to recover the deferred tax assets based on the estimates of future taxable profit prepared on the basis of the financial projections and business plans of the Bank and taking into account the applicable tax legislation at any given time. Therefore, the evaluation of the Bank's ability to recover the deferred tax assets is a complex exercise which requires a high level of judgement and estimation.	Our audit procedures included assessing the assumptions considered by management when estimating the recovery period for the deferred tax assets, and analysing, together with our valuation specialists and tax specialists, the economic and financial assumptions used by the Bank to estimate future profits. In addition, we performed a sensitivity analysis of the results and evaluated whether the information disclosed in the notes to the financial statements is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

Risks associated with information technology

Key audit matter	How the matter was addressed in our audit
The Bank has a complex technological operating environment. In light of the Bank's heavy reliance on IT systems, it is critical to evaluate the controls over the main technological risks. The continuity of the Bank's business processes is highly dependent on its technological infrastructure and the controls in place. Employees are granted rights of access to the different systems to enable them to execute their remit and responsibilities. These access rights are relevant, inasmuch as they are designed to ensure that any changes made to the applications are duly authorised and appropriately monitored and implemented. As such, they are key controls aimed at mitigating the potential risk of fraud or error resulting from changes made to applications.	In accordance with our audit methodology, our assessment of the information technology systems encompassed two areas: IT general controls and automated controls over key processes. We were assisted in this task by our IT specialists. Our assessment of IT general controls encompassed the evaluation of general controls in place over technological platforms, notably applications. During the audit we performed control tests on the relevant applications associated with the critical areas of our work. In this phase of our evaluation of the general controls we assessed, among others, controls related to the following activities: access to programs and data; management of program changes; management of program development; and management of operations in the production environment. In relation to the automated controls over key processes, during our audit we analysed the threats and vulnerabilities associated with the integrity and availability of information in certain processes, and identified and tested the operating effectiveness of the controls implemented.

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Business combinations See note 2.22 to the financial statements	
Key audit matter	How the matter was addressed in our audit
On 9 June 2019, the ABANCA Group completed the acquisition of the retail banking unit of Deutsche Bank's Private & Commercial Business ('PCB') in Portugal. Furthermore, on 9 September 2019 the acquisition of Banco Caixa Geral, S.A. was completed. In accordance with Circular 4/2017, the Bank has measured and recognised these business combinations on the basis of management estimates and an independent expert report on the fair values of the identifiable assets acquired and liabilities assumed. After adjusting the identifiable assets acquired and liabilities assumed to their fair value, it was identified that in both cases the carrying amount exceeded the consideration given. In accordance with accounting standards, the Bank has therefore recognised this difference as income under "Negative goodwill recognised in profit or loss" in the statement of profit or loss for 2019, in an amount of Euros 231,679 thousand.	With regard to the acquisition of Deutsche Bank's Private & Commercial Business ('PCB') in Portugal and of Banco Caixa Geral, S.A., our procedures focused mainly on the following aspects: – Understanding of the methodology applied by management to identify and estimate the fair value of the identifiable assets acquired and liabilities assumed. – Procurement of the independent expert report on the identification and estimation of the fair value of the identifiable assets acquired and liabilities assumed. – Assessment, by our valuation specialists, of the appropriateness of the methodology used by the Bank and the independent expert, the underlying assumptions and the mathematical accuracy in determining the fair values. In particular, we assessed the appropriateness of the purchase price allocation applied to the identifiable assets acquired and liabilities assumed. To this end, we took into account market data and our own prior experience. – Specific audit procedures to obtain sufficient audit evidence of the existence, completeness and accuracy of the most relevant balances on the balance sheet at the acquisition date. – Procurement of the sale-purchase deeds signed by the Bank and the sellers, wherein we considered the contractual terms relating to the aforementioned transactions, as well the existence of the pertinent administrative and regulatory authorisations. – Procurement of documentation supporting settlement of the transactions by the Bank. Lastly, we evaluated whether the information disclosed in the notes to the financial statements is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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Other Information: Management Report

Other information solely comprises the 2019 management report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the financial statements.

Our audit opinion on the financial statements does not encompass the management report. Our responsibility as regards the content of the management report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the non-financial information statement, which consists solely of verifying that this information has been provided in the management report, or where applicable, that the management report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.

b) A general level applicable to the rest of the information included in the management report, which consists of assessing and reporting on the consistency of this information with the financial statements, based on knowledge of the Bank obtained during the audit of the aforementioned financial statements and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the management report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the non-financial information mentioned in section a) above is presented in a separate report, the "ABANCA Corporate Social Responsibility Report 2019", to which the management report makes reference; that the rest of the information contained in the management report is consistent with that disclosed in the financial statements for 2019; and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Compliance Committee's Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the accompanying financial statements in such a way that they give a true and fair view of the equity, financial position and financial performance of the Bank in accordance with the financial reporting framework applicable to the Bank in Spain, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the preparation and presentation of the financial statements.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 prevailing legislation regulating the audit of accounts 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, 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 Bank's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Bank'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 financial statements 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 Bank to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Bank’s Audit and Compliance 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 Bank’s Audit and Compliance Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Bank's Audit and Compliance Committee, we determine those that were of most significance in the audit of the financial statements of the current period and which 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

Additional Report to the Audit and Compliance Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit and Compliance Committee dated 16 March 2020.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 26 June 2017 for a period of three years, beginning after the year ended 31 December 2016.

Previously, we had been appointed for a period of three years, by consensus of the shareholders at their general meeting, and have been auditing the financial statements since the year ended 31 December 2014.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Julio Álvaro Esteban
On the Spanish Official Register of Auditors ("ROAC") with No. 1,661

16 March 2020

ABANCA Corporación Bancaria, S.A.

Financial Statements
31 December 2019

Management Report
Financial year 2019

ABANCA Corporación Bancaria, S.A.

BALANCE SHEET AT 31 DECEMBER 2019 AND 2018

(Thousands of euros)

ASSETS	Note	2019	2018 (*)
Cash, cash balances with central banks and other demand deposits	5	3.072.362	1.364.430
Financial assets held for trading			
Derivatives	10	117.674	99.216
Debt securities	7	76.981	-
		194.655	99.216
Non-trading financial assets mandatorily at fair value through profit or loss			
Equity instruments	8	38.180	116.644
Debt securities	7	29.314	28.925
Loans and advances			
Other debtors	9	-	699
		67.494	146.268
Financial assets at fair value through other comprehensive income			
Equity instruments	8	208	3.065
Debt securities	7	4.103.307	6.776.900
		4.103.515	6.779.965
Financial assets at amortised cost			
Debt securities	7	5.895.751	3.868.852
Loans and advances			
Credit institutions	6	951.391	1.403.197
Other debtors	9	37.882.486	30.981.799
		44.729.628	36.253.848
Derivatives - hedge accounting	10	53.087	31.087
Investments in subsidiaries, joint ventures and associates	12		
Subsidiaries		2.032.690	1.969.541
Associates		96.412	69.485
		2.129.102	2.039.026
Tangible assets	13		
Fixed assets			
For own use		909.607	813.690
Leased out under operating leases		243	-
Investment property		214.210	215.417
		1.124.060	1.029.107
Intangible assets	14		
Goodwill		-	-
Other intangible assets		126.614	11.318
		126.614	11.318
Tax assets	26		
Current tax assets		91.482	41.519
Deferred tax assets		2.807.995	2.772.735
		2.899.477	2.814.254
Other assets			
Insurance contracts linked to pensions	15	142.406	136.232
Inventories		876	944
Other assets		197.830	135.286
		341.112	272.462
Non-current assets and disposal groups classified as held for sale	11	130.443	133.321
TOTAL ASSETS		58.971.549	50.974.302
MEMORANDUM ITEM: OFF-BALANCE SHEET EXPOSURES	27		
Loan commitments granted		7.371.006	5.542.854
Financial guarantees granted		585.935	502.363
Other commitments granted		1.182.109	1.030.494

LIABILITIES AND EQUITY	Note	2019	2018 (*)
Financial liabilities held for trading			
Derivatives	10	116.544	72.716
		116.544	72.716
Financial liabilities at amortized cost			
Deposits			
Central banks	16	4.658.647	3.435.881
Credit institutions	16	3.648.489	4.294.000
Customers	17	43.683.194	37.380.941
Debt securities issued	18	1.476.576	754.827
Other financial liabilities	20	198.143	84.232
Memorandum item: subordinated liabilities	19	*672.778*	*5.789*
		53.665.049	45.949.881
Derivatives - hedge accounting	10	179.795	135.298
Provisions	21		
Pensions and other post-employment defined benefit obligations		160.896	158.437
Outstanding tax-related legal proceedings and litigation		16.684	17.195
Commitments and guarantees given		77.416	83.644
Other provisions		120.358	63.596
		375.354	322.872
Tax liabilities	26		
Current tax liabilities		2.530	-
Deferred tax liabilities		46.299	39.092
		48.829	39.092
Other liabilities	22	247.514	225.322
TOTAL LIABILITIES		54.633.085	46.745.181
EQUITY			
Own funds			
Capital			
Paid-up capital	25	2.453.657	2.453.657
Share premium	24	433.901	433.901
Equity instruments issued other than capital	24		
Other equity instruments		250.000	250.000
Retained earnings	24	1.252.576	1.244.882
Other reserves		(37.291)	(38.404)
Treasury shares	25	(230.541)	(229.727)
Profit for the period		359.425	369.867
Interim dividend	3	(160.752)	(159.307)
		4.320.975	4.324.869
Accumulated other comprehensive income	23		
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on defined benefit pension plans		(20.550)	(19.183)
Fair value changes of equity instruments measured at fair value through other comprehensive income		1	(328)
Items that may be reclassified to profit or loss			
Foreign currency translation		-	-
Hedging derivatives Cash flow hedges reserve (effective portion)		12.139	(18.700)
Fair value changes of debt securities measured at fair value through other comprehensive income		25.899	(57.537)
Non-current assets and disposal groups classified as held for sale		-	-
		17.489	(95.748)
TOTAL EQUITY		4.338.464	4.229.121
TOTAL LIABILITIES AND EQUITY		58.971.549	50.974.302

(*) Presented solely and exclusively for comparison purposes. See Note 1.2.

Notes 1 to 49 and Appendices I to III form an integral part of the consolidated annual accounts for 2019.

ABANCA Corporación Bancaria, S.A.

STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018 (*)

(Thousands of euros)

	Note	Income / (Expenses) 2019	2018 (*)
Interest income	28	740.864	690.844
Financial assets at fair value through other comprehensive income		39.217	91.093
Financial assets at amortized cost		721.068	625.565
Other of interest income		(19.421)	(25.814)
Interest expense	29	(219.568)	(201.359)
NET INTEREST INCOME		521.296	489.485
Dividend income	30	4.749	682.680
Fee and commission income	31	218.846	183.553
Fee and commission expense	32	(24.961)	(19.464)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	33	81.386	105.630
Financial assets at amortized cost		(289)	(691)
Other financial assets and liabilities		81.675	106.321
Gains or losses on financial assets and liabilities held for trading, net	33	(1.804)	781
Other gains or (-) losses		(1.804)	781
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	33	7.031	(21.239)
Other gains or (-) losses		7.031	(21.239)
Gains or losses from hedge accounting, net	33	(2.202)	(7.579)
Exchange differences, net		4.994	3.946
Other operating income	34	23.871	38.013
Other operating expenses	37	(90.912)	(77.100)
GROSS INCOME		742.294	1.378.706
Administrative expenses		(513.242)	(473.836)
Personnel expenses	35	(333.225)	(299.517)
Other administrative expenses	36	(180.017)	(174.319)
Depreciation and amortization	13 and 14	(72.158)	(35.483)
Provisions or reversals of provisions	21	(55.701)	(10.615)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification net gains or losses		(12.516)	(22.954)
Financial assets at fair value through other comprehensive income		178	(2.211)
Financial assets at amortized cost	9	(12.694)	(20.743)
NET OPERATING INCOME		88.677	835.818
Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates	12	79.928	(469.611)
Impairment or reversal of impairment on non-financial assets		(2.841)	(557)
Tangible assets	13	(2.841)	(557)
Other		-	-
Gains or losses on derecognition of non-financial assets, net	38	(13.086)	3.785
Negative goodwill taken to profit or loss	2.22	231.679	-
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	11	(2.196)	7.860
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		382.161	377.295
Tax expense or income related to profit or loss from continuing operations	26	(22.736)	(7.428)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		359.425	369.867
Profit or loss after tax from discontinued operations		-	-
PROFIT FOR THE YEAR		359.425	369.867

(*) Presented solely and exclusively for comparison purposes. See Note 1.2.

Notes 1 to 49 and Appendices I to III form an integral part of the consolidated annual accounts for 2019.

ABANCA Corporación Bancaria, S.A.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED
31 DECEMBER 2019 AND 2018**
(Thousands of euros)

	2019	2018 (*)
PROFIT/(LOSS) FOR THE PERIOD	359.425	369.867
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss	**(1.038)**	**(5.602)**
Actuarial gains or (-) losses on defined benefit pension plans	(1.953)	(7.534)
Fair value changes of equity instruments measured at fair value through other comprehensive income	470	(469)
Income tax relating to items that will not be reclassified	445	2.401
Items that may be reclassified to profit or loss	**114.275**	**(73.567)**
Foreign currency translation	-	-
Exchange gains or (-) losses recognized in equity	-	-
Cash flow hedges (effective portion)	44.056	41.624
Valuation gains or (-) losses taken to equity	44.056	41.624
Debt securities at fair value through other comprehensive income	119.194	(146.720)
Valuation gains or (-) losses taken to equity	212.322	(40.447)
Transferred to profit or loss	(93.128)	(106.273)
Income tax relating to items that may be reclassified to profit or loss	(48.975)	31.529
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**472.662**	**290.698**

(*) Presented solely and exclusively for comparison purposes. See Note 1.2.

Notes 1 to 49 and Appendices I to III form an integral part of the consolidated annual accounts for 2019.

ABANCA Corporación Bancaria, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018 (*)

(Thousands of euros)

	Capital	Share premium	Equity instruments issued other than capital	Retained earnings	Other reserves	(-) Treasury shares	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Balance at 31 December 2017	2.453.657	433.901	-	1.099.753	-	(226.940)	291.958	(110.581)	(15.872)	3.925.876
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see Note 2.21)	-	-	-	-	(35.457)	-	-	-	(707)	(36.164)
Opening balance	2.453.657	433.901	-	1.099.753	(35.457)	(226.940)	291.958	(110.581)	(16.579)	3.889.712
Total comprehensive income for the period	-	-	-	-	-	-	369.867	-	(79.169)	290.698
Other changes in equity	-	-	250.000	145.129	(2.947)	(2.787)	(291.958)	(48.726)	-	48.711
Other equity instruments issued	-	-	250.000	-	-	-	-	-	-	250.000
Treasury shares purchased	-	-	-	-	-	(1.803)	-	-	-	(1.803)
Transfers between equity line items	-	-	-	145.128	-	-	(291.958)	146.830	-	-
Share-based payments	-	-	-	-	-	(984)	-	-	-	(984)
Dividends (or shareholder remuneration)	-	-	-	-	-	-	-	(195.556)	-	(195.556)
Other increases or (-) decreases in equity	-	-	-	1	(2.947)	-	-	-	-	(2.946)
Balance at 31 December 2018	2.453.657	433.901	250.000	1.244.882	(38.404)	(229.727)	369.867	(159.307)	(95.748)	4.229.121
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Opening balance	2.453.657	433.901	250.000	1.244.882	(38.404)	(229.727)	369.867	(159.307)	(95.748)	4.229.121
Total comprehensive income for the period	-	-	-	-	-	-	359.425	-	113.237	472.662
Other changes in equity	-	-	-	7.694	1.113	(814)	(369.867)	(1.445)	-	(363.319)
Other equity instruments issued	-	-	-	-	-	-	-	-	-	-
Treasury shares purchased	-	-	-	-	-	(358)	-	-	-	(358)
Transfers between equity line items	-	-	-	197.701	-	-	(369.867)	172.166	-	-
Share-based payments	-	-	-	-	-	(456)	-	-	-	(456)
Dividends (or shareholder remuneration)	-	-	-	(190.000)	-	-	-	(173.611)	-	(363.611)
Other increases or (-) decreases in equity	-	-	-	(7)	1.113	-	-	-	-	1.106
Balance at 31 December 2019	2.453.657	433.901	250.000	1.252.576	(37.291)	(230.541)	359.425	(160.752)	17.489	4.338.464

(*) Presented solely and exclusively for comparison purposes. See Note 1.2.

Notes 1 to 49 and Appendices I to III form an integral part of the consolidated annual accounts for 2019.

ABANCA Corporación Bancaria, S.A.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2019 AND 2018 (*)

(Thousands of euros)

	2019	2018 (*)
A) CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	3.701.130	(840.160)
1. Profit for the period	359.425	369.867
2. Adjustments to reconcile net income to net cash from operating activities	(19.236)	(301.481)
(+) Depreciation and amortization	72.158	35.483
(+/-) Other adjustments	(91.394)	(336.964)
3. Net increase/(decrease) in operating assets	1.390.688	(605.176)
(+/-) Financial assets held for trading	(97.243)	1.884
(+/-) Non-trading financial assets mandatorily at fair value through profit or loss	90.426	(164.968)
(+/-) Financial assets designated at fair value through profit or loss	-	-
(+/-) Financial assets at fair value through other comprehensive income	1.964.080	1.803.066
(+/-) Financial assets at amortized cost	(609.442)	(2.273.983)
(+/-) Other operating assets	42.867	28.825
4. Net increase/(decrease) in operating liabilities	2.012.972	(259.319)
(+/-) Financial liabilities held for trading	43.828	(12.172)
(+/-) Financial liabilities designated at fair value through profit or loss	-	-
(+/-) Financial liabilities at amortized cost	1.985.091	(158.167)
(+/-) Other operating liabilities	(15.947)	(88.980)
5. Income tax receipts/(payments)	(42.719)	(44.051)
B) CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(2.184.976)	575.379
1. Payments:	(2.186.338)	(108.160)
(-) Tangible assets	(102.067)	(39.672)
(-) Intangible assets	(30.226)	(3.438)
(-) Investments in subsidiaries, joint ventures and associates	(34.377)	(64.885)
(-) Other business units	-	-
(-) Non-current assets and liabilities classified as held for sale	(4.969)	(165)
(-) Other payments related to investing activities	(2.014.699)	-
2. Receipts:	1.362	683.539
(+) Tangible assets	655	-
(+) Intangible assets	-	-
(+) Investments in subsidiaries, joint ventures and associates	707	679.754
(+) Other business units	-	-
(+) Non-current assets and liabilities classified as held for sale	-	-
(+) Other receipts related to investing activities	-	3.785
C) CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	265.640	48.882
1. Payments:	(384.360)	(201.118)
(-) Dividends	(361.752)	(195.555)
(-) Subordinated liabilities	-	(2.776)
(-) Redemption of own equity instruments	-	-
(-) Acquisition of own equity instruments	(814)	(2.787)
(-) Other payments related to financing activities	(21.794)	-
2. Receipts:	650.000	250.000
(+) Subordinated liabilities	650.000	-
(+) Issuance of own equity instruments	-	250.000
(+) Disposal of own equity instruments	-	-
(+) Other receipts related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	1.781.794	(215.899)
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1.103.434	1.319.333
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (E+F)	2.885.228	1.103.434

COMPOSITION OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2019	2018 (*)
(+) Cash	200.464	149.471
(+) Cash equivalent balances in central banks	2.684.764	953.963
(+) Other financial assets	-	-
(-) Less: bank overdrafts repayable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2.885.228	1.103.434

(*) Presented solely and exclusively for comparison purposes. See Note 1.2.

Notes 1 to 49 and Appendices I to III form an integral part of the consolidated annual accounts for 2019.

1. Introduction, Basis of Presentation y additional disclosures

1.1. Introduction

ABANCA Corporación Bancaria, S.A. (hereinafter "ABANCA", the "Bank" or the "Entity") is a private credit and savings institution whose corporate purpose is the performance of all types of activities, operations and services befitting the banking business in general or directly or indirectly related thereto and which are permitted through current legislation. These include the provision of investment and ancillary services and the performance of insurance brokerage activities, as well as the acquisition, holding, transacting with and disposal of all types of securities.

The Bank was incorporated on 14 September 2011 as a public limited company in Spain, for an open-ended period, as a result of the split-off of the financial activity carried out up until that time by the entity resulting from 2010 merger of Caixa de Aforros de Vigo, Ourense e Pontevedra and Caja de Ahorros de Galicia (hereinafter "Novacaixagalicia").

The transfer of shares to the Spanish company Banesco Holding Financiero 2, S.L.U. (subsequently named ABANCA Holding Financiero, S.A), to which the FROB Steering Committee, in a resolution dated 18 December 2013, had awarded 88.33% of the Bank in the framework of the competitive sale of the Bank, was completed on 25 June 2014.

On 1 December 2014, the Bank's Extraordinary General Meeting of Shareholders agreed to adopt the trade name of ABANCA Corporación Bancaria, S.A. (formerly NCG Banco, S.A.) and the resulting amendment to its articles of association.

The Annual General Meeting of Shareholders of ABANCA, held on 10 June 2019, approved the merger through absorption of ABANCA Holding Financiero, S.A. (absorbed company) and ABANCA (absorbing company), in which the former will be terminated and transfer its assets and liabilities in bloc and to the latter, in the capacity of universal successor; the merger transaction is expressly subject to payment of dividends out of reserves (see Note 3) as a condition precedent in accordance with the common draft terms of merger approved by the Boards of Directors of both merging companies (see Note 2.22). Following the fulfilment of the conditions precedent provided for in the agreement and the reception of the applicable authorisations, the merger was filed with the Business Register on 18 February 2020.

Furthermore, dated 14 October 2019, the Boards of Directors of ABANCA Corporación Bancaria, S.A. and Banco Caixa Geral, S.A. approved the common draft terms of merger. The merger has been completed through the absorption of Banco Caixa Geral, S.A. (the absorbed entity) by ABANCA Corporación Bancaria, S.A. (the absorbing entity), Banco Caixa Geral, S.A. was wound up and dissolved without liquidation, and all its assets and liabilities being transferred in bloc to ABANCA Corporación Bancaria, S.A. as universal successor. On 9 October 2019, the General Meetings of Shareholders of both of ABANCA and Banco Caixa Geral approved the merger of the both entities. Following the fulfilment of the conditions precedent provided for in the agreement and the reception of the applicable authorisations, the merger was filed with the Business Register on 13 March 2020.

For the performance of its activity, at 31 December 2019 the Bank has 536 operating branches in the Autonomous Region of Galicia (500 at 31 December 2018); 191 branches in the rest of Spain (116 at 31 December 2018); 44 in Portugal (4 at 31 December 2018); 1 in Switzerland (1 at 31 December 2018), and 1 in United States (1 at 31 December 2018), as well as representative offices in Mexico, Panama, Venezuela, Switzerland, Germany, Great Britain, France and Brazil.

Additionally, the Bank owns equity interests in several companies (subsidiaries and associates) performing industrial and commercial activities, and which, together with the Bank, form the ABANCA Corporación Bancaria Group (hereinafter, the "Group" or "ABANCA Group"). As a result, the Bank is required to prepare the consolidated financial statements of the Group in addition to its own individual financial statements.

The Bank is subject to the standards and regulations applicable to financial institutions operating in Spain. The management and use of external funding that financial institutions obtain from customers, as well as other aspects of their economic and financial activity, are subject to certain legal standards that regulate their activity. The Bank is a member of the Deposit Guarantee Fund.

The Entity has its registered office in Betanzos, A Coruña, at number 2 calle Cantón Claudino Pita. The articles of association and other public information about the Group are available both on the official website of the Group (www.abanca.com) and at the registered office.

1.2. Basis of Presentation

The financial statements for 2019 have been prepared on the basis on the Bank's accounting records and were approved for issue by the Board of Directors at the meeting held on 16 March 2020. The 2019 Financial Statements of the Bank are presented in accordance with the provisions of the Spanish Code of Commerce and related commercial legislation and of Bank of Spain Circular 4/2017, of 27 November, as amended (hereinafter "Circular 4/2017"), and other mandatory standards approved by the Bank of Spain, so as to fairly present the Bank's equity and financial position at 31 December 2019 and the results of its operations and cash flows for the year then ended.

The financial statements of 2019 are currently pending approval by the General Meeting of Shareholders. However, the Board of Directors of the Bank considers that these financial statements will be approved with no changes. The financial statements of 2018 were approved by the Annual General Meeting of Shareholders of the Bank held on 10 June 2019.

1.2.1. Consolidated financial statements

The Bank is the parent company of a group of subsidiaries engaged in different activities and that form, together with the Parent Company, the ABANCA Corporación Bancaria Group (hereinafter, the "Group"). Consequently, the Board of Directors of the Bank has also prepared the Group's consolidated financial statements for 2019. Based on the contents of the above mentioned consolidated financial statements, prepared in accordance with the International Financial Reporting Standards adopted by the European Union (hereinafter, "EU-IFRS") applicable as of 31 December 2019; considering the provisions of Bank of Spain Circular 4/2017, of 27 November; and, in accordance with other provisions of the regulatory framework on financial reporting applicable to the Group, at 31 December 2019 the consolidated assets and equity of ABANCA Corporación Bancaria Group respectively amounted to €58,879,315 and €4,654,575 thousand, and net consolidated profit attributable to the Group at 31 December 2019 amounted to €405,020 thousand.

1.2.2. Comparative information

The information for 2018 included in these notes is presented solely for the purposes of comparison with the information for 2019 and, therefore, does not constitute the Bank's financial statements for 2018.

On 1 January 2019, Bank of Spain Circular 2/2018 entered into force; the main objective of this Circular is the adaption of Circular 4/2017 to the latest developments in banking regulation, while remaining entirely compatible with the EU-IFRS accounting framework. The financial statements for the annual period ended 31 December 2018 have not been restated, and this is the reason why certain information is not comparable.

Additionally, certain information relating to 2018 has been restated for consistency with respect to 2019.

1.2.3. Mandatory accounting principles

The main accounting principles and policies and measurement criteria applied in preparing the Bank's financial statements are stated in Note 2. All mandatory accounting principles and measurement criteria with a significant effect on the financial statements have been applied.

1.3. Responsibility for information and for the estimates made

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

The results for the reporting period and the determination of the Bank's equity are sensitive to the accounting principles and policies, measurement criteria and estimates used in preparing the financial statements. The accompanying financial statements contain certain estimates made by Senior Management of the Bank, which were later ratified by Directors, in order to quantify some of the assets, liabilities, income, expenses and commitments therein reported. These estimates basically refer to the following:

1. Impairment losses, recovery and fair value of certain assets (see Notes 6, 7, 8, 9, 11, 12, 13, 14, 26 and 42).

2. The assumptions used in the actuarial calculation of the liabilities and commitments for post-employment benefits and other long-term commitments with employees (see Notes 2.12 and 21).

3. The useful lives of tangible and intangible assets (Notes 2.14 and 2.15)

4. Provisions and contingent liabilities, which were estimated based on certain assumptions therein contained (see Note 21).

5. Estimation of provisions for the eventual impact arising from legal claims in connection with the management of hybrid instruments and subordinated debt, and from claims relating to the marketing of mortgage loans that included floor clauses (see Note 21).

6. The probability of certain losses which are inherent in the Bank's activity (see Note 21).

7. Recoverability of deferred tax assets (see Note 26).

8. Estimates of the fair value of the assets acquired and liabilities assumed in the business combinations referred to in Note 2.22.

These estimates are based on the best information available at the 2019 reporting date regarding the events analysed. However, future events may require these estimates to be substantially increased or decreased in subsequent years. In accordance with legislation in force, any changes in accounting estimates would be recognised prospectively in the corresponding statement of profit or loss.

1.4. Agency agreements

Dated 4 August 2015, ABANCA Mediación Operador de Banca Seguros Vinculado, S.L. was registered in the Register of Credit Institutions Agents as a credit institution agent for the attraction of deposits and loans.

In 2019 and 2018, the Bank did not enter into any agency agreement or relationship whatsoever with third parties, other than the one referred to in the foregoing paragraph, for the negotiation or formal arrangement of banking transactions. Without prejudice to the foregoing, the Bank also has certain agreements with legal and natural persons aimed at winning transactions for its own benefit, although these parties have not been granted powers to negotiate or formally arrange these transactions, and cannot therefore be classified as Agents for the purposes set out in the aforementioned Royal Decree and in Bank of Spain Circular 4/2010.

1.5. Equity investments in credit institutions

In compliance with the provisions of article 28 of Royal Decree 84/2015, of 13 February, the Bank reports that it does not hold any investments in credit institutions that exceed 5% of their capital or voting rights at the 2019 and 2018 reporting dates.

1.6. Environmental impact

Given that the activities of the Bank have no significant environmental impact, the accompanying financial statements do not contain any disclosure of environmental-related matters. Any additional information may be found in the Corporate Social Responsibility Report, which is published on the Bank's website.

1.7. Legal ratios

1.7.1. Minimum Capital Ratio

Until 31 December 2013, Bank of Spain Circular 2/2008, of 22 May, on the determination and control of minimum capital requirements, regulated the minimum capital requirements of Spanish credit institutions both on an individual and on a consolidated group basis.

On 27 June 2013 the new regulation on minimum capital requirements (called CRD-IV) was published in the Official Journal of the European Union, applicable as of 1 January 2014 and comprising the following:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 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; and

- Regulation (EU) No. 575/2013 (hereinafter CRR) of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The directives must be transposed into Spanish law, while the EU regulations are of immediate application as of their entry into force.

In Spain, Royal Decree 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions (hereinafter the RDL), made a partial transposition into Spanish law of Directive 2013/36/EU and authorised the Bank of Spain, in its final provision five, to make use of the options attributed to the competent national authorities in Regulation (EU) No. 575/2013.

Therefore, all the provisions of Bank of Spain Circular 3/2008 that were contrary to mentioned European regulation were superseded as of 1 January 2014. Furthermore, Bank of Spain Circular 2/2014, of 31 January, was published on 5 February 2014, whereby, in accordance with the powers conferred upon the competent national authorities by Regulation (EU) No. 575/2013, Bank of Spain made use of certain permanent regulatory powers provided for in this regulation.

Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions has furthered the transposition of CRD-IV into Spanish legislation.

Lastly, Bank of Spain Circular 2/2016, of 2 February, on supervision and solvency, was approved on 9 February 2016 and completes the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No. 575/2013. This Circular came into force on 10 February 2016.

All of the above constitute the prevailing legislation which regulates the minimum capital requirements of Spanish credit institutions (on an individual and consolidated Group basis) and the method to be applied in the determination of those minimum capital requirements; as well as the different capital self-assessment processes to be implemented by the institutions and the public information these entities should submit to the market.

The minimum capital requirements are calculated based on the Bank's exposure to credit and dilution risk, counterparty, position and settlement risk relating to assets and liabilities held for trading; currency risk, and operational risk. The Bank is also required to comply with the risk concentration limits set out in the legislation and with internal corporate governance.

In December 2019 the European Central Bank (ECB) announced its decision regarding prudential capital requirements applicable to ABANCA for 2020 following the Supervisory Review and Evaluation Process (SREP). This decision requires ABANCA to maintain a minimum phased-in tier one common equity capital (CET1) of 8.75% and minimum phased-in total capital ratio of 12.75% (8.75% and 12.25%, respectively, in 2019).

At 31 December 2019, CET1 Ratio (Common Equity Tier 1) stands at 12.38% (14.57% at 31 December 2018), while the Bank's Total Capital Ratio under Regulation EU 575/2013 stands at 15.32% of risk weighted assets (15.51% at 31 December 2018). At 31 December 2019 the Bank has a CET1 surplus of €843,677 thousand and its Total Capital exceeds the ECB minimum requirements by €683,429 thousand (€1,565,780 thousand and €876,319 thousand, respectively, at 31 December 2018). With respect to article 92 of Regulation (EU) No. 575/2013, the Group has a CET1 surplus of €2,094,336 thousand, while its Total Capital exceeds minimum regulatory requirements by €1,934,089 thousand (€2,708,883 thousand and €2,019,422 thousand, respectively, at 31 December 2018) (see Note 25).

1.7.2. Minimum reserves ratio

At 31 December 2019, as well as throughout 2019, ABANCA complied with the minimum ratio required by applicable Spanish regulations, based on Regulation (EC) No 1745/2003 of 12 September 2003.

1.8. Deposit Guarantee Fund and Resolution Fund

The Bank is a member of the Deposit Guarantee Fund (DGF). The expenses incurred for contributions to this fund in 2019 and 2018 totalled €46,618 thousand and €42,334 thousand, respectively, and are recognised under "Other operating expenses" in the accompanying statements of profit or loss (see Note 37).

In order to restore the capital adequacy of the Deposit Guarantee Fund for Credit Institutions (DGFCI) in accordance with article 6.2 of Royal Decree-Law 16/2011, of 14 October, at its meeting held on 30 July 2012 the DGF Management Committee agreed that the fund's member institutions should make an extraordinary contribution, payable in ten equal annual instalments. The amount of that contribution is included in the figures referred to in the foregoing paragraph.

Pursuant to the new regulation, in 2019 an amount of €13,870 thousand was contributed to the Spanish resolution fund (Fund for Orderly Bank Restructuring, FROB). This contribution has been recognised under "Other operating expenses" in the accompanying statement of profit or loss (€11,117 thousand in 2018) (See Note 37).

1.9. Events after the reporting period

On 10 February 2020, ABANCA has submitted a binding offer for the purchase of 95% of shares in Banco Bic Portugês, S.A. (EuroBic). The Bank of Portugal has been given comprehensive information about the terms of this transaction. The EuroBic purchase agreement is subject, as usual in this kind of transactions, to a due diligence process and to approval by the relevant regulatory authorities.

Apart from the disclosure referred in the foregoing paragraph, between 31 December 2019 and the date of authorisation for issue of these financial statements no significant event has occurred, other than those disclosed in these notes.

1.10. Disclosure on average supplier's payment times required by Law 15/2010

Pursuant to Law 15/2010, of 5 July, which amends Law 3/2004, of 29 December, containing measures to combat late payments in commercial transactions, as developed by the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 on disclosures in the notes relating to late payments to suppliers in commercial transactions, in view of the activities in which the Group is engaged, the information on late payments disclosed in this note essentially reflects payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Group, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

Information on the average supplier payment period is presented below:

	2019	2018
	Days	Days
Average supplier payment period	15.72	17.88
Ratio of transactions paid	15.73	17.74
Ratio of transactions outstanding	10.53	49.15
	Amount (Thousands of euros)	Amount (Thousands of euros)
Total payments made	266,801	182,948
Total payments outstanding	725	825

2. Accounting policies and measurement criteria applied

The Bank has prepared the accompanying financial statements for the porting period on a going concern basis.

The following accounting policies and measurement criteria have been applied in the preparation of the financial statements:

2.1. Investments in subsidiaries, joint ventures and associates

2.1.1. Investments in subsidiaries

"Subsidiaries" are those companies that constitute, together with the Bank, a single decision-making unit. This decision-making unit is, typically but not exclusively, presumed to exist when the parent directly or indirectly owns 50% or more of voting rights in the investee or, if this percentage is lower or zero, when there are circumstances or agreements with other shareholders of the investee that determine the existence of such a decision-making unit.

Note 12 below contains significant information on the Bank's most relevant interests in these investees.

Interests in subsidiaries are presented in the statement of financial position under "Investments in Subsidiaries" and are measured at acquisition cost less any eventual impairment, except where there is a firm commitment of divesture, in which case interest in subsidiaries are presented in the statement of financial position under "Non-current assets and disposal groups classified as held for sale" and are measured in accordance with this classification (see Notes 2.19 and 12).

Pursuant to the provisions of Bank of Spain Circular 4/2017, when there is evidence that the investment in an associate is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

2.1.2. Investments in joint ventures

A joint venture is a contractual arrangement whereby two or more entities ("venturers") undertake an economic activity or hold assets in such a way that the strategic financial and operating decisions requires the unanimous consent of all the venturers, without requiring the establishment of a financial structure that is separate from the venturers.

Assets and liabilities allocated to jointly controlled operations and assets jointly controlled with other venturers are classified in the statement of financial position according to their specific nature. Similarly, income and expenses originating from joint ventures are presented in the statement of profit or loss according to their nature.

The Bank also considers as "joint ventures" its investments in entities that are not subsidiaries and that are controlled jointly by two or more entities.

Pursuant to the provisions of Bank of Spain Circular 4/2017, when there is evidence that the investment in an associate is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

2.1.3. Investments in associates

Associates are entities over which the Bank is able to exercise significant influence, even if they do not constitute, together with the Bank, a single decision-making unit or are under common control. Typically, this capacity is expressed by an interest (direct or indirect) representing 20% or more of the voting rights of the investee.

Interests in entities considered as "associates" are presented in the statement of financial position under "Investments in Associates" and are measured at acquisition cost less any eventual impairment, except where there is a firm commitment of divesture, in which case interest in subsidiaries are presented in the statement of financial position under "Non-current assets and disposal groups classified as held for sale" and are measured in accordance with this classification (see Notes 2.19 and 12).

Pursuant to the provisions of Bank of Spain Circular 4/2017, when there is evidence that the investment in an associate is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

Note 12 below includes certain information on the Bank's most relevant interests in these investees.

2.2. Financial instruments

2.2.1. Definitions

A "*financial instrument*" is any contract that gives rise to a financial asset in one entity and to a financial liability or equity instrument in another entity.

An "*equity instrument*" is any legal transaction that evidences a residual interest in the assets of the issuer after deducting all its liabilities.

A "*financial derivative*" is a financial instrument whose value fluctuates in response to changes in an observable market variable *(such as an interest rate, foreign exchange rate, financial instrument price or market index)*, for which the initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"*Hybrid financial instruments*" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

"*Compound financial instruments*" are contracts that simultaneously create for their issuer a financial liability and an own equity instrument *(such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer)*.

The following transactions are not treated as financial instruments for accounting purposes:

- Investments in subsidiaries, joint ventures and associates (to which Note 2.1 applies).

- The rights and obligations derived from employee pension plans (to which Note 2.12 applies).

2.2.2. Initial recognition of financial instruments

Financial instruments are initially recognised in the statement of financial position when the Bank becomes party to the contract generating these financial instruments, in accordance with the terms of the contract. Specifically, debt instruments such as loans and cash deposits are recognised from the date that a legal right to receive or pay cash arises, respectively. Derivatives are generally recognised from the trade date.

A regular way 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 contracts or forward currency sale and purchase contacts, are 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, cash transactions in currency markets are recognised at settlement date, whilst equity instruments traded on secondary Spanish security markets are recognised at trade date, and debt instruments traded on secondary Spanish security markets are recognised at settlement date.

2.2.3. Derecognition of financial instruments

A financial asset is derecognised from the statement of financial position when any of the following circumstances arise:

1. The contractual rights over the cash flows have expired; or

2. The financial asset and substantially all the rights and rewards associated therewith are transferred, or although these are not substantially transferred nor substantially retained, when control over the financial asset is transferred.

A financial liability is derecognised from the statement of financial position when the obligations generated have expired or when it is redeemed by the Bank with the intention of re-trading or cancelling the liability.

2.2.4. Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing 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, based on proven valuation techniques used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risks associated with it.

In particular, the fair value of a financial instrument traded on an organised, transparent and deep market included in the trading portfolios is equivalent to its daily quotation price and if, for exceptional reasons, its quotation price on a given date could not be established, methods similar to those used to measure derivatives not traded on organised markets are applied.

The fair value of derivatives not traded on organised markets or traded on organised but less deep and transparent markets, is equivalent to the sum of future cash flows originating from the instrument, discounted at the measurement date ("present value" or "notional close"); using methods recognised by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortised cost is the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments, and plus or minus, as appropriate, the cumulative amortisation (as reflected in the statement of profit or loss), using the effective interest method, of the difference between the initial cost and the redemption amount of these financial instruments. The amortised cost of financial assets also includes any impairment losses.

The effective interest rate is the discount rate that exactly matches the net carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate is the same as the contractual interest rate established on the acquisition date, adjusted, where applicable, to reflect the fees and transaction costs that should be included in the calculation of the effective interest rate pursuant to Bank of Spain Circular 4/2017. For financial instruments with a floating interest rate, the effective interest rate is calculated in a manner similar to that for fixed interest financial instruments and is recalculated at each date of review of the contractual rate, taking into account any changes in future cash flows from the transaction.

2.2.5. Classification and measurement of financial assets and financial liabilities -

Classification and measurement of financial assets -

Circular 4/2017 contains three major categories for classification of financial assets: measured at amortised cost; measured at fair value through accumulated other comprehensive income and measured at fair value through profit or loss.

Classification of the above-mentioned portfolios will be based on the following two criteria:

- The Group's business model for managing the financial assets; and

- The contractual cash flow characteristics of the financial assets, also known as the "solely payments of principal and interest's criterion" (hereinafter, "SPPI").

A financial asset shall be classified, for measurement purposes, in the portfolio of financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial instrument shall be classified in the portfolio of financial assets mandatorily at fair value through profit and loss when it cannot be classified in any of the above mentioned categories due the entity's business model within which the instrument is held or due the characteristics of its contractual cash flows.

Financial assets will solely be reclassified if, and only if, ABANCA changes one or several objectives of any of its business models. In that case, all financial assets included in the relevant business model will be reclassified. The change in the objective of the business model must be effected before the reclassification date.

Upon initial recognition in the statement of financial position, all financial instruments will be measured at fair value. In the case of financial instruments not at fair value through profit or loss, fair value will be adjusted to any transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the case of financial instruments at fair value through profit or loss, transaction costs that are directly attributable will be immediately recognised in the statement of profit or loss.

Except for trading derivatives that are neither economic or accounting hedges, any changes in the value of financial assets arising from the accrual of interest and similar items are registered under "Interest income" in the statement of profit or loss of the period when the accrual took place. Dividends received from companies other than subsidiaries, associates or joint ventures are recognised under "Dividend income" in the statement of profit or loss of the period when the entity's right to receive payment thereof is established.

Changes in the value of financial assets, other than those referred to in the foregoing paragraph, are treated as follows, according to the classification of the relevant financial asset.

"Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss" and "Financial assets designated at fair value through profit or loss"

Financial assets held within a business model whose objective is to generate profits through purchases and sales of these financial assets are registered under "Financial assets held for trading".

The following financial assets will be recognised under "Non-trading financial assets mandatorily at fair value through profit or loss":

- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- Financial assets whose contractual cash flows do not meet the SPPI criterion.

Financial assets at fair value through profit or loss will be recognised under "Financial assets designated at fair value through profit or loss" when these financial assets cannot be classified in any of the above-mentioned categories due the entity's business model within which the instrument is held or due the characteristics of its contractual cash flows.

Subsequently to the acquisition, assets registered under these items are measured at fair value, and any changes in the value thereof (gains or losses) are recognised net under "Gains or losses on financial assets and liabilities held for trading, net" and under "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net" in the statement of profit or loss (see Note 33), except in the case of interest accrued from derivatives designated as economic or accounting interest rate hedges, which will be recognised under either "Interest income" or "Interest expense" in accordance with recognition of gains or losses on the hedged instrument.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

However, the entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

"Financial assets at fair value through other comprehensive income"

Assets recognised under this item in the statement of financial position are measured at fair value. Any subsequent changes in the value of these assets (gains or losses) are temporarily recognised (net of the relevant tax effect) under "Accumulated 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" and under "Accumulated 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" in the statement of financial position.

When a debt instrument at fair value through other comprehensive income is derecognised, the accumulated gain on loss thereon taken to equity will be reclassified to profit or loss for the period. However, in the case of equity instruments at fair value through other comprehensive income derecognised, the relevant gain or loss recognised in other comprehensive income is not reclassified to profit or loss but to a reserve item.

Furthermore, net impairment losses on financial assets at fair value through other comprehensive income arising during the reporting period are recognised under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss – Financial assets at fair value through other comprehensive income" in the statement of profit or loss for the reporting period.

Changes in the value of non-monetary items arising from exchange differences are temporarily recognised under "Accumulated other comprehensive income - Items that may be reclassified to profit or loss - Foreign currency translation" in the statement of financial position. Exchange differences arising from monetary items are recognised under "Exchange differences, net" in the statement of profit or loss.

"Financial assets at amortised cost"

The following financial assets will be recognised under "Financial assets at amortised cost":

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- Financial assets whose contractual cash flows do meet the SPPI criterion.

Assets recognised under this item in the statement of financial position are subsequently measured at "amortised cost", which shall be calculated using the "effective interest method".

Net impairment losses on financial assets at amortised value arising during the reporting period are recognised under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss – Financial assets at amortised cost" in the statement of profit or loss for the reporting period.

Classification and measurement of financial liabilities

"Financial liabilities held for trading" and "Financial liabilities designated at fair value through profit or loss"

Subsequently to initial recognition thereof, these liabilities are measured at fair value, and any changes in the value thereof (gains or losses) are recognised net under "Gains or losses on financial assets and liabilities held for trading, net" and under "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net" in the statement of profit or loss, except in the case of interest accrued from derivatives designated as economic or accounting interest rate hedges, which will be recognised under either "Interest income" or "Interest expense" in accordance with recognition of gains or losses on the hedged instrument. However, any value changes arising from exchange differences are recognised under "Gains or losses on financial assets and liabilities" in the statement of profit or loss.

"Financial liabilities at amortised cost"

This category includes all of the Bank's financial liabilities, as none of them qualify for classification as financial liabilities held for trading or financial liabilities at fair value through profit or loss, except for derivative financial instruments on which losses have been incurred for the Bank at the reporting date, which are recorded under "Financial liabilities held for trading - Derivatives" and under "Derivatives – Hedge accounting" in the statement of financial position.

Financial liabilities included in this category are initially measured at fair value, adjusted to reflect transaction costs directly attributable to the issue of the financial liability, which are taken to profit and loss until maturity using the effective interest method defined in Bank of Spain Circular 4/2017. These liabilities are subsequently measured at amortised cost calculated using the effective interest method defined in Bank of Spain Circular 4/2004.

Interest accrued on these securities is recognised under "Interest expense" in the statement of profit or loss. Exchange differences on securities denominated in currencies other than the Euro that are included in this portfolio are recognised following the criteria described in Note 2.4. Financial liabilities included in this category subject to fair value hedges are recognised following the criteria described in Note 2.3.

A summary of the various techniques used by the Bank to measure the financial instruments recognised at fair value at 31 December 2019 and 2018 is as follows:

Market value based on	Percentage			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Quoted price in active markets	93.82%	–	97.47%	–
Internal measurement models based on observable market data	3.85%	99.68%	1.80%	98.03%
Internal measurement models not based on observable market data	2.33%	0.32%	0.73%	1.97%

A breakdown of the Bank's financial instruments by measurement method used, is as follows:

	Thousands of euros			
	2019			
	Quoted price in active markets	Internal models based on observable market data	Internal models not based on observable market data	Total
Financial assets held for trading	26,473	116,918	51,264	194,655
Non-trading financial assets mandatorily at fair value through profit or loss (Assets)	15,676	–	51,818	67,494
Financial assets at fair value through other comprehensive income (assets)	4,103,515	–	–	4,103,515
Derivatives - hedge accounting (assets)	–	53,087	–	53,087
Financial liabilities held for trading	–	115,606	938	116,544
Derivatives - hedge accounting (liabilities)	–	179,795	–	179,795

	Thousands of euros			
	2018			
	Quoted price in active markets	Internal models based on observable market data	Internal models not based on observable market data	Total
Financial assets held for trading	–	95,619	3,597	99,216
Non-trading financial assets mandatorily at fair value through profit or loss (Assets)	98,383	–	47,885	146,268
Financial assets at fair value through other comprehensive income (assets)	6,779,965	–	–	6,779,965
Derivatives - hedge accounting (assets)	–	31,087	–	31,087
Financial liabilities held for trading	–	68,621	4,095	72,716
Derivatives - hedge accounting (liabilities)	–	135,298	–	135,298

The main techniques used, or internal measurement models consist in the analysis of discounted cash flows of financial instruments of all kinds over their remaining life.

The Board of Directors of the Bank considers that financial assets and financial liabilities recognised in the statement of financial position, as well as gains and losses on these financial instruments are reasonable and reflect their market value.

2.2.6. Offsetting of financial instruments

Financial assets and financial liabilities are offset, i.e. they are presented in the statement of financial position at their net amount, only if the Bank has both a legally enforceable right to offset the recognised amounts in these instruments and intends either to settle on a net basis, or to realise the asset and pay the liability simultaneously.

2.3. Hedge accounting and risk mitigation

The Bank uses financial derivatives as part of its strategy to reduce exposure to interest rate and currency risks, amongst others. These operations are considered as hedging transactions when certain requirements are met.

The Bank designates operations as hedges on inception of the hedge or the hedged instruments, and duly documents the hedging transaction. Documentation on these transactions should identify the hedged instrument or instruments and the hedging instrument or instruments, in addition to the nature of the risk to be hedged; as well as the criteria or methods followed by the Bank to evaluate the effectiveness of the hedge throughout its duration, considering the risk it intends to hedge.

The Bank only considers operations that are considered highly effective throughout the duration of the operation as hedging transactions. A hedge is considered highly effective if during the expected term of the hedge changes in fair value or cash flows attributed to the risk hedged are virtually fully offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments.

To measure the effectiveness of hedging transactions, the Bank analyses whether from inception to expiration of the hedge it 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 nearly completely offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments and, retrospectively, whether gains or losses on the hedging transaction are within a range of 80% to 125% of the results of the hedged item.

The hedging transactions carried out by the Bank are classified under the following categories:

1. Fair value hedges: these cover exposure to changes in fair value of financial assets and financial liabilities or unrecognised firm commitments, or an identified portion of these assets, liabilities or firm commitments, attributable to a particular risk, provided that these changes could affect the statement of profit or loss.

2. Cash flow hedges: hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or liability or to a highly probable forecast transaction, provided that it could affect the statement of profit or loss.

With respect to financial instruments designated as hedged items and that qualify for hedge accounting, differences in measurement are recognised according to the following criteria:

1. In fair value hedges, differences generated in both hedging instruments and hedged items – with respect to the type of hedged risk – are recognised directly in the statement of profit or loss.

2. In cash flow hedges, changes in value arising in the effective portion of the hedge are temporarily recognised under "Equity – Accumulated other comprehensive income – Hedging derivatives. Cash flow hedges reserve (effective portion)" in the accompanying statement of financial position. The financial instruments hedged in this kind of hedging transaction are recognised as explained in Note 2.2 with no variation since they are considered hedged items.

In the latter case, changes in value of the hedging instruments are not recognised in profit or loss until the gains or losses on the hedged item are recognised in profit or loss or until the hedged item expires. Changes in value of the hedging instrument corresponding to the ineffective portion of cash flow hedges are recognised directly under "Gains or losses on hedge accounting, net" in the statement of profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, the hedge no longer qualifies for hedge accounting or the Bank revokes the designation of a hedge.

When, in accordance with the preceding paragraph, fair value hedging is discontinued, adjustments to the value of hedged items measured at amortised cost resulting from the aforementioned hedge accounting are taken to the statement of profit or loss until the hedged items expire, using the effective interest rate recalculated on the date the hedging transaction is discontinued.

In the event that a cash flow hedge is discontinued, the cumulative gain or loss on the hedging instrument recognised under "Equity – Accumulated other comprehensive income – Hedging derivatives. Cash flow hedges (effective portion)" in the statement of financial position continues to be recognised under this item until the forecast transaction occurs, whereupon it is taken to the statement of profit or loss. In the case of cash flow hedges, the acquisition cost of the asset or liability to be recorded is corrected in the event that the item hedged is a forecast transaction that culminates in the recognition of a financial asset or liability.

Regarding hedge accounting, based on the analysis performed, the Bank continues to apply Circular 4/2004 to its hedge accounting.

2.4. Foreign currency transactions

2.4.1. Functional currency

The Bank's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in "foreign currency".

At 31 December 2019 and 2018 the equivalent value, in thousands of Euros, of the main assets and liabilities held by the Bank in foreign currency, considering the nature of the items and the main currencies in which they are denominated, is as follows:

At 31 December 2019 -

	Equivalent value in thousands of euros	
	Assets	Liabilities
Balances in US dollars:		
Cash, cash balances with central banks and other demand deposits	83,014	–
Financial assets held for trading	5,119	–
Non-trading financial assets mandatorily at fair value through profit or loss	8,990	–
Financial assets at fair value through other comprehensive income	15,304	–
Financial assets at amortised cost	1,482,162	–
Other assets	23,044	–
Financial liabilities held for trading	–	4,442
Financial liabilities at amortised cost	–	1,501,335
Other liabilities	–	2,272
	1,617,633	1,508,049
Balances in other currencies:		
Cash, cash balances with central banks and other demand deposits	89,342	–
Financial assets held for trading	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	93	–
Financial assets at fair value through other comprehensive income	60,077	–
Financial assets at amortised cost	529,155	–
Other assets	443	–
Financial liabilities held for trading	–	53
Financial liabilities at amortised cost	–	319,436
Other liabilities	–	360
	679,110	319,849
Total foreign currency balances	2,296,743	1,827,898

At 31 December 2018 -

	Equivalent value in thousands of euros	
	Assets	Liabilities
Balances in US dollars:		
Cash, cash balances with central banks and other demand deposits	39,862	–
Financial assets held for trading	2,016	–
Non-trading financial assets mandatorily at fair value through profit or loss	4,123	–
Financial assets at fair value through other comprehensive income	39,444	–
Financial assets at amortised cost	1,058,956	–
Other assets	12,162	–
Financial liabilities held for trading	–	4,252
Financial liabilities at amortised cost	–	1,023,363
Other liabilities	–	442
	1,156,563	**1,028,057**
Balances in other currencies:		
Cash, cash balances with central banks and other demand deposits	68,786	–
Financial assets held for trading	20	–
Non-trading financial assets mandatorily at fair value through profit or loss	26,093	–
Financial assets at fair value through other comprehensive income	35,101	–
Financial assets at amortised cost	450,421	–
Other assets	2,205	–
Financial liabilities held for trading	–	301
Financial liabilities at amortised cost	–	308,285
Other liabilities	–	249
	582,626	**308,835**
Total foreign currency balances	**1,739,189**	**1,336,892**

2.4.2. Conversion criteria for balances in foreign currency

Transactions in foreign currency carried out by the Bank outside the Eurozone are initially recognised in their respective currencies. Subsequently, monetary assets and liabilities in foreign currency are translated to the functional currency at the closing rate, defined as the average spot exchange rate at the reporting date.

Additionally:

1. Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate of the date of acquisition.

2. Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when fair value was determined.

3. Income and expenses are translated at the exchange rate at the transaction date. An average exchange rate may be used for all the transactions carried out in a particular period.

4. Forward foreign currency transactions involving only foreign currencies or involving Euros and foreign currencies, and which are not hedges, are translated at the year-end exchange rates applicable for their expiry date, as quoted in currency futures markets.

2.4.3. Recognition of exchange differences

Exchange differences arising from the translation of foreign currency balances into the functional currency are generally recognised at their net amount under "Exchange differences, net" in the statement of profit or loss, except exchange differences deriving from financial instruments at fair value through profit or loss, which are recognised in the statement of profit or loss under "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net", not differentiating them from the rest of the changes in fair value.

2.5. Recognition of income and expenses

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

2.5.1. Interest, dividends and similar items income and expenses

In general, interest income, interest expenses and similar items are accounted for on an accruals basis using the effective interest rate method defined in Bank of Spain Circular 4/2017. Dividends received from other companies are recognised as income when the right to receive them arises.

2.5.2. Commissions, fees and similar items

Income and expenses derived from commissions, fees and similar items, which should not be included in the calculation of the effective interest rate of operations and/or which do not form part of the acquisition cost of financial assets and financial liabilities not classified at fair value through profit or loss, are recognised in the statement of profit or loss using criteria that vary according to their nature. The most significant items are as follows:

1. Those associated with the acquisition of financial assets and financial liabilities at fair value through profit or loss, which are recognised in the statement of profit or loss when paid or received.

2. Those originating from transactions or services carried out over an extended period, which are recognised in the consolidated statement of profit or loss over the term of the transactions or services.

3. Those relating to the provision of a service in a single act, which are recognised in the statement of profit or loss when the single act is carried out.

2.5.3. Non-finance income and expenses

These are recognised on an accrual's basis.

2.5.4. Deferred receipts and payments

Deferred receipts and payments are recognised at the amount that results from discounting forecast cash flows at market rates.

2.6. Offsetting of balances

Receivables and payables may only be used to offset each other (and are therefore presented in the statement of financial position at the net amount) if they derive from transactions in which this possibility is specified in the contract or in compliance with a legal obligation, and provided that the balances will be settled on a net basis or the asset realised and the liability settled simultaneously.

2.7. Transfers of financial assets

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 risks and rewards of the transferred assets are substantially conveyed to third parties (as in the case of unconditional sales, sales of financial assets with an option to repurchase the financial asset at its fair value at the time of repurchase, sales of financial assets with put options and call options that are deeply out of the money, asset securitisations in which the transferor neither retains subordinated financing nor grants any type of credit enhancement to the new owners, and other similar cases), the transferred financial asset is derecognised from the statement of financial position and any right or obligation retained or created as a result of the transfer is simultaneously recognised.

- If the risks and rewards associated with the transferred financial asset are substantially retained (as in the case of financial asset sale and repurchase transactions where the repurchase price is a fixed price or the fixed price plus interest, securities lending agreements in which the borrower is obliged to return the same or similar assets, financial asset securitisations that maintain subordinated financing or other types of credit enhancements that substantially absorb expected loan losses for the securitised assets, and other similar cases), the transferred financial asset is not derecognised from the statement of financial position and continues to be measured using the same criteria applied prior to the transfer. The following items are recognised without being offset:

    - An associated financial liability for an amount equal to the consideration received, which is subsequently measured at amortised cost, or at fair value where the aforementioned conditions for classification as other financial liabilities at fair value through profit or loss are met, in accordance with the criteria described for this financial liability category.

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

- If the risks and rewards associated with the transferred financial asset are neither substantially transferred nor substantially retained (as in the case of sales of financial assets with put options and call options that are neither deeply in nor out of the money, financial asset securitisations in which the transferor assumes subordinated financing or another type of credit enhancement for part of the transferred asset, and other similar cases), the following differentiations are made:

    - If the transferor does not retain control of the transferred financial asset, it is derecognised from the statement of financial position and any right or obligation retained or created as a result of the transfer is recognised.

    - If the transferor retains control of the transferred financial asset, it continues to be recognised in the statement of financial position at an amount equal to its exposure to the changes in value by which it could be affected, and an associated financial liability is recognised. The 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.

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

2.8. Exchanges of assets

An "exchange of assets" is the acquisition of tangible and intangible assets in exchange for the conveyance of other non-monetary assets or a combination of monetary and non-monetary assets. For the purpose of the accompanying financial statements, foreclosures of assets in settlement of amounts due by third parties to the Bank do not constitute an exchange of assets.

Items received in an exchange of assets are measured at fair value, provided that this exchange operation could be understood to have a commercial substance, as defined in Bank of Spain Circular 4/2017, and when the fair value of the asset received, or the asset given up, can be estimated reliably. The fair value of the instrument received is determined as the fair value of the asset given up, plus, where applicable, the fair value of any monetary consideration paid, except when there is much clearer evidence of the fair value of the asset received.

Exchanges of assets that do not meet the requirements described above are recognised at the carrying amount of the asset given up, plus any monetary consideration paid or committed on acquisition.

2.9. 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:

1. 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.

2. In the case of equity instruments, mean that it will not be possible to fully recover their carrying amount.

As a general rule, write-down of the carrying amount of impaired financial instruments is recognised in the statement of profit or loss in the period in which the impairment has arisen. Reversals of previously recognised impairment losses, if any, are recognised in the statement of profit or loss for the period in which the impairment is eliminated or reduced.

When the recovery of any recognised impairment is considered unlikely, the amount of the impairment is derecognised, without prejudice to any initiatives the Bank may undertake to seek collection of the amount receivable until their contractual rights are extinguished by expiry of the statute-of-limitations period, pardoning of debt or any other cause.

The criteria applied by the Bank to calculate possible impairment losses in each financial instrument category, and the method used to calculate the hedges recognised for such impairment, are as follows:

2.9.1. Debt instruments measured at amortised cost

The "expected credit loss" impairment model will apply to financial assets measured at amortised cost; to financial assets measured at fair value through accumulated other comprehensive income, with the exception of investments in equity instruments; and, to financial guarantee contracts and to loan commitments unilaterally revocable by the Entity.

The impairment model does not apply to financial assets designated at fair value through profit or loss.

ABANCA defines a credit loss as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Bank will apply the existing classification criteria to classify its credit exposure, based on credit risk, under any of the following categories:

- Performing exposures (Stage 1). Stage 1 includes transactions that have not had a significant increase in credit risk since initial recognition. The loss allowance therefor will be an amount equal to 12-month expected credit losses. Interest revenue will be measured by applying the effective interest rate to the transaction gross carrying amount.

- Exposures under special monitoring (Stage 2). Special monitoring includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not present a default event. The loss allowance therefor will be an amount equal to lifetime expected credit losses. Interest revenue will be measured by applying the effective interest rate to the transaction gross carrying amount.

- Non-performing (Stage 3). Stage 3 includes credit-impaired transactions, i.e. transactions presenting a default event. Purchased or originated transactions that are credit-impaired on initial recognition, such as transactions purchased at a deep discount that reflects the incurred credit losses, will be included in this category.

  The loss allowance therefor will be an amount equal to expected credit losses. Notwithstanding the foregoing, when a credit-impaired transaction is purchased or originated, the loss allowance will be amount equal to the cumulative changes in expected credit loss since initial recognition; any expected credit loss upon the purchase or origination of credit-impaired assets may not be included in the loss allowance amount or in the gross carrying amount thereof at initial recognition.

  Interest revenue will be measured by applying the effective interest rate to the amortised cost (i.e. adjusted to any loss allowance) of the financial asset.

- Write-off. This category will include transactions for which the Entity has no reasonable expectations of recovery. Classification in this category entails writing-off the entire gross carrying amount and derecognising the transaction.

When measuring expected credit loss, a series of distinctions, based on the category under which the relevant financial assets has been classified, are considered:

- For transactions classified under the first category (performing exposures), the Entity recognises 12-month expected credit losses.

- For transactions classified under second and third categories (performing exposures under special monitoring non performing exposures), the Entity recognises lifetime expected credit losses.

Circular 4/2017 distinguishes the following concepts of expected credit loss:

- 12-month expected credit losses: the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a transaction that are possible within the 12 months after the reporting date; and

- Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected life of a transaction.

All the above require a significant amount of judgement both in the models for estimating expected credit losses and in forecasts on the economic factors that may have an impact on said losses, which shall be unbiased and probability-weighted.

The Bank has considered the following definitions:

Default

The Bank has used a definition of default applicable to financial instruments that is consistent with the definition used for internal credit risk management purposes and with the indicators set out in banking regulations applicable as at Circular 4/2017 effective date. The Group has considered both qualitative and quantitative indicators.

Payment past due for over 90 days is a presumption that can be rebutted where the entity considers, based on reasonable and supportable information, the adequacy of applying a longer term.

Significant increase in credit risk

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The Entity has developed a model for identification of significant increases in credit risk, this model relies on a dual approach that is globally applied:

- Quantitative component: identification of any increase in the current expected probability of default over the lifetime of the transaction, from the origination date to the assessment date.

- Qualitative component: the Bank's indicators for the identification of significant increases in credit risk include changes in internal policies for credit risk monitoring at customer level using rating or scoring systems or macroeconomic scenarios.

Additionally, financial instruments meeting any of the following circumstances shall be considered Stage 2:

- Payment past due over 30 days: pursuant to Circular 4/2017, payment past due for over 30 days is a rebuttable presumption where the entity considers, based on reasonable and supportable information, that credit risk has not increased significantly even though payments are more than 30 days past due.

- Special monitoring: Special monitoring includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not present a default event.

- Refinancing and restructuring transactions without evidence of being impaired.

Although the standard introduces several simplified operational procedures/practical solutions for the assessment of significant increases in credit risk, the Bank does not use them as a general rule. However, for certain investment grade financial assets, mainly linked to certain public institutions or bodies, the Group does use the possibility set out in the standard of directly considering their credit risk has not significantly increased because they have a low credit risk at the reporting date.

Measurement of expected loss methodology

Under Circular 4/2017, measurement of expected losses shall reflect:

An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and, reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are therefore estimated both on a collective basis and on an individual basis. The objective of the Bank's estimation on an individual basis is to estimate expected losses for significant impaired exposures or for exposures classified as Stage 2. In these cases, the amount of credit loss is measured as the difference between the expected cash flows discounted at the transaction's effective interest rate and the financial instrument carrying amount.

Circular 4/2017 requires, for collective estimation of credit loss allowances, segmentation into homogenous risk groups. Accordingly, the process of homogeneous group definition or portfolio segmentation is among the first processes that must be completed prior to estimating risk parameters. Further, an appropriate segmentation is essential, as it allows for a more accurate measurement of expected credit losses by increasing the discrimination of risk parameters, and by including in the defined groups any differences in average maturities.

Estimated losses are based on the following parameters:

PD: this an estimate of the probability of default in each period.

EAD: this an estimate of exposure in the event of default in each future period, taking into account the expected changes in the exposure after the reporting date.

LGD: this an estimate of the loss arising on default; it is based on the difference between the contractual cash flows and those the entity expects to receive, including from any collateral.

Use of current, past and future information

Circular 4/2017 requires using current, past and future information both for the detection of significant increases in risk and for measurement of expected loss.

The standard does not require an entity, when measuring of expected loss, to identify every possible scenario.

The Bank has established that risk parameters used for collective estimation must include forward projections that take into account every possible macroeconomic condition (such as, GDP, unemployment rate, interest rates, etc.). In order to incorporate every possible macroeconomic condition into the model, the Bank considers a number of probability-weighted scenarios of occurrence.

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

Impairment losses on debt securities classified as financial assets at fair value through other comprehensive income reflect the positive difference between their acquisition cost (net of any amounts repaid on the principal) and their fair value, after deduction of any impairment loss previously recognised in the statement of profit or loss.

Where there is objective evidence that negative differences arising on the measurement of these assets are due to their impairment, they are no longer recognised under "Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Fair value changes of debt securities measured at fair value through other comprehensive income" in the equity side of the statement of financial position and the total accumulated amount is transferred to the statement of profit or loss. If impairment losses are subsequently reversed, these are recognised in the statement of profit or loss for the year in which the reversal occurs.

In the case of debt instruments that must be classified as "Non-current assets and disposal groups classified as held for sale", losses previously recognised in equity are considered to be realised and, consequently, are recognised in the statement of profit or loss on the date they are so classified.

2.9.3. Equity instruments classified as financial assets at fair value through other comprehensive income

Impairment losses on equity instruments measured at fair value, and included in the portfolio of "Financial assets at fair value through other comprehensive income", is measured as the difference between their acquisition cost and their fair value, after deduction of any impairment loss previously recognised in the statement of profit or loss. The impairment will be recognised under "Accumulated other comprehensive income – Items that will not be reclassified to profit or loss" until derecognition of the relevant impaired asset, and then it will be reclassified to reserves of the Bank.

2.10. Financial guarantees and related provisions made

Contracts requiring the issuer to make payments to reimburse a creditor for losses incurred when a particular debtor fails to meet a payment obligation under the original or amended conditions of a debt instrument are considered financial guarantee contracts, irrespective of their various legal forms (security deposits, financial guarantees, insurance contracts or credit derivatives).

The Bank initially recognises the financial guarantees provided as liabilities at fair value, comprising the premium received plus the present value of any cash flows to be received (commissions), using an interest rate similar to that of the financial assets extended by the Bank with a similar term and risk, and simultaneously recognising a receivable in respect of the present value of expected future cash flows, using the aforementioned rate of interest.

Financial guarantees, irrespective of the holder thereof, arrangement or any other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, where applicable, to estimate the provisions required. This amount is calculated by applying criteria similar to those used to quantify impairment losses arising on debt instruments measured at amortised cost.

Where a provision is required for these financial guarantees, the commissions pending accrual, and which are recognised as "Other liabilities" in the statement of financial position are reclassified to "Provisions for commitments and guarantees extended".

2.11. Accounting for lease transactions

On 1 January 2019, came into force Bank of Spain Circular 2/2018, whose main objective is to adapt Circular 4/2017, of 27 November, addressed to credit institutions, on public and confidential financial reporting standards and financial statements models, to the requirements of International Financial Reporting Standard (IFRS-UE) 16 on leases.

The new standard introduces a single accounting model for lessees and requires lessees to recognise in the statement of financial position all assets and liabilities under lease contracts. The only permitted exceptions to this recognition criterion are short-term contracts or where the underlying asset is of low value. Lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

For lessor accounting, the new standard substantially carries forwards the accounting requirements of the previous standard. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

With regards to the impact on the Financial Statements as of the transition date, the Bank elected to apply a modified retrospective method consisting in recognising lease liabilities for an amount equal to the actual value of future payment commitments as of 1 January 2019. As for lease assets, the Group has elected to recognised right-of-use assets for an amount equal to relevant lease liabilities. As a result of this approach, the Bank has recognised right-of-use assets and lease liabilities amounting to approximately €25,626 thousand, relating mostly to the Bank's business in Spain and to leases of commercial premises from its branch network. At 31 December 2019, the Bank has recognised right-of-use assets amounting to €78,960 thousand and lease liabilities amounting to €78,993 thousand, mainly arising from the incorporation of Deutsche Bank's Private & Commercial Business ('PCB') Portugal retail banking unit and of Banco Caixa Geral, S.A.

2.11.1. Finance leases

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership of the underlying leased asset are transferred; substantially all risks and rewards incidental to ownership are typically transferred when:

a) By the end of the lease term ownership of the leased asset is transferred, or when the contractual terms imply that ownership of the leased asset will be transferred, to the lessee; or the when lessee has the option to purchase the asset at a price that is sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.

b) At the inception of the lease, the present value of the minimum lease payments, including any contingent rents, amounts to at least substantially all of the fair value of the leased asset.

c) The lease term is for the major part of the economic life of the asset even if title is not transferred.

d) The leased asset is of such a specialised nature that only the lessee can use it without major modifications.

e) The lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee.

f) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.

g) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

When the entity acts as lessor in a finance lease transaction, the assets held under a finance lease are recognised in its statement of financial position and presented as receivables from lessees, without prejudice to any rights the entity may be entitled to in the capacity as owner of the leased assets. Receivables arising from finance leases will be presented as assets in the statement of financial position at amount equal to the net investment in the lease determined as the aggregate of present value of lease payments to be received from the lessee during the lease term and any payments under the residual value guarantee provided to the lessor by the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee, and any unguaranteed residual value accruing to the lessor.

Initial direct costs (understood as incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

When acting as the lessee in a finance lease transaction, at the commencement date the entity recognises the statement of financial position an asset, classified according to the nature of the underlying asset, and a liability for the same amount, which is the lower of:

a) The fair value of the leased asset, and

b) The present value of the minimum lease payments, including the purchase option payment if the exercise price is expected to be lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, as well as any amounts guaranteed directly or indirectly by the lessor, excluding contingent rents (understood as any payments the amount of which does not depend on the passage of time), costs for services and taxes that may be passed on by the lessor.

The present value of lease payments is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the entity uses the interest rate it would be required to pay in similar lease or, failing this, the interest rate it would have to pay to borrow the funds necessary to purchase the underlying asset in a similar economic environment. Initial direct costs attributable to the lessee are included in the amount initially recognised as an asset.

In both cases, finance income and costs originating from these contracts are credited and debited to the statement of profit or loss as "Interest income" and "Interest expense", respectively.

2.11.2. Operating leases

Any lease, other than a finance lease, is classified as an operating lease. In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.

Depreciation of the leased asset is recognised as an expense in the statement of profit or loss in accordance with the Bank's general depreciation policy for similar assets, and applied to the leased asset in according to its nature (see Note 2.14.1).

Lease income from operating leases is recognised under "Other operating income" on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by lessors are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

When acting as lessee in operating leases, at the commencement date the Bank recognises a lease liability at the present value of future lease payments. The present value of future lease payments is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the entity uses the rate that the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase an asset with a value similar to the value of the right-of-use asset in a similar economic environment (the "incremental borrowing rate").

Additionally, the lessee recognises at the commencement date a right-of-use asset measured at cost. For presentation purposes, right-of-use assets are classified as either tangible or intangible assets, in accordance with the nature of the leased asset. Subsequent to initial recognition, the lessee shall measure the right-of-use asset at cost less any accumulated depreciation and, where appropriate, any accumulated impairment losses.

2.12. Personnel expenses

2.12.1. Post-employment benefits

The Bank undertakes to supplement benefits payable to certain pensioners, employees and associated rights-holders by the public Social Security system subsequent to the period of employment.

The Bank's post-employment commitments to its employees are considered as 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".

Defined contribution plans-

The contributions made by the Bank in this regard each year are recognised under "Personnel expenses" in the statement of profit or loss.

At year end, any amounts pending contribution to the external plan associated with the commitments are recognised as liabilities at their present value in "Provisions - Pensions and other post-employment defined benefit obligations" in the statement of financial position.

Defined benefit plans-

The Bank recognises the present value of its defined benefit pension obligations as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the statement of financial position, net, as explained below, of the fair value of the assets that qualify as "plan assets".

Plan assets are assets linked to a specific defined benefit commitment that will be used to directly settle these obligations. They have the following characteristics: they are not owned by the Bank, but rather by a legally separate third party not related to the Bank; they are only available to settle or finance post-employment benefits payable to employees; they can only be returned to the Bank when the remaining assets in the plan are sufficient to meet all obligations of the plan or the Bank relating to current or former employee benefits or to reimburse employee benefits already settled by the Bank.

"Actuarial gains and losses" are deemed to be those arising from differences between previous actuarial assumptions and what has actually occurred in the plan, and from changes in the actuarial assumptions used. The Bank recognises any actuarial gains and losses in the period in which they are generated or incurred, with a credit or debit to "Accumulated other comprehensive income" in equity.

The past service cost, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the statement of profit or loss on a straight-line basis when it arises.

If the Bank is able to demand payment from an insurer of part or all of the disbursement required to settle the defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the disbursements required to settle the obligation, but the insurance policy does not meet the conditions to be considered a plan asset, the Bank recognises this reimbursement right under "Other assets - Insurance contracts linked to pensions" in the statement of financial position. This right is treated as a plan asset in all other respects.

2.12.2. Other long-term employee benefits

2.12.2.1 Early retirement and partial retirement

Until the date of effective retirement, these commitments are accounted for, as applicable, using the above-mentioned criteria described for defined benefit post-employment commitments, except that the actuarial gains and losses are recognised immediately when they arise.

Early retirement and partial retirement not included in the Labour Agreement dated 4 October 2010

The Bank was subrogated to the commitments resulting from early retirements and partial retirements agreed by the merged Savings Banks in 2010 and previous years, with respect both to salaries and other employee benefits, from the date of early retirement or partial retirement until the effective retirement date. Furthermore, the Bank took on commitments for the employee benefits and medical insurance of 4 early-retired employees in 2011 that were not party to the Labor Agreement dated 4 October 2010.

At the 2019 reporting date, €107 thousand have been recognised in this respect under "Provisions – Pensions and other post-employment defined benefit obligations" in the liabilities side of the statement of financial position (€144 thousand at the end of 2018) (see Note 21).

2.12.2.2 Death and disability of serving employees

The commitments assumed by the Bank for death and disability contingencies with its personnel during the period that these commitments remain in force have been covered through insurance policies (either directly by ABANCA, or indirectly through the Pension Plans in which these commitments have been arranged) taken out with the insurance companies Caser and ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U.

2.12.2.3 Termination benefits

In accordance with current legislation, the Bank is obliged to indemnify those persons whose employment relationship is terminated under a workforce restructuring plan or who are dismissed unfairly, as well as in those cases in which there is a contractual stipulation for payment of severance pay in the event of termination of the employment relationship, all of which falls within the framework of legally applicable labour regulations.

The provisions recognised by the Bank to meet the commitments under the existing labour agreements, which at 31 December 2019 totalled €16,364 thousand (€24,465 thousand at 31 December 2018), are recognised as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the accompanying statement of financial position (see Note 21).

Lastly, the Bank has agreements with some of its executives to compensate them when they end their relationship with the Bank, provided that this can be decided by the Bank, in which case the amount of this remuneration will be taken to the statement of profit or loss when the decision to terminate employment is taken and the employee is notified thereof (see Note 4.4).

2.13. Income tax

The income tax expense (income) for the period is recognised in the statement of profit or loss, except when it results from a transaction recognised directly in equity, in which case the income tax is also recognised in equity of the Bank.

In accordance with the applicable legislation, the income tax expense is generally calculated as the tax payable with respect to the taxable profit for the year, adjusted for the amount of the changes in assets and liabilities in the year arising from temporary differences, and for tax credits and possible tax loss carryforwards (see Note 26).

The Bank considers that there is a temporary difference when there is a difference between the carrying amount and the tax base of assets and liabilities. The tax base of assets and liabilities is considered to be the amount attributable to the item for tax purposes. A taxable temporary difference is understood to be that which generates a future obligation for the Bank to settle certain amounts to public entities. A deductible temporary difference is any difference that generates for the Bank a certain right to recover payments from or reduce payments to public entities in the future.

Tax credits and deductions and tax loss carryforwards are amounts that, after occurrence or performance of the activity or obtainment of the profit or loss carrying the right to them, are not applied for tax purposes in the corresponding tax return until the conditions to do so established in the tax regulations are met, it being considered probable that they will be applied in future periods.

Current tax assets and liabilities are taxes that are expected to be recoverable from, or payable to the taxation authorities within 12 months after the date of recognition. Deferred tax assets and liabilities are those amounts that are expected to be recovered from, or payable to the taxation authorities in future years.

The Bank recognises a deferred tax asset or liability for all taxable temporary differences. Nevertheless, deferred tax liabilities arising from the recognition of goodwill are not recognised.

Notwithstanding the general rule, in 2019 and 2018 the Bank only recognised deferred tax assets arising from deductible temporary differences, tax credits and deductions or tax loss carryforwards in accordance with the provisions of Royal Decree-Law 14/2013 or, where appropriate, when the following conditions were met:

1. It is considered probable that the Bank will obtain sufficient taxable profit in the future against which the deferred tax assets may be offset; and

2. They result from identifiable causes which, in the case of deferred tax assets derived from tax loss carryforwards, are unlikely to recur.

No deferred tax assets or liabilities are recorded on initial recognition of an asset or liability that is not a result of a business combination and which would not affect accounting or taxable income on recognition.

The deferred tax assets and liabilities recognised are reassessed at the end of each reporting period in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed (see Note 26.4.a)).

To this end, at 31 December 2019 and 2018, Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation regarding the supervision and solvency of financial institutions, published in the Official State Gazette ("BOE"), was taken into consideration. This Royal Decree-Law, which came into force on 1 January 2014, appended additional provision twenty-two to the Recast Corporate Income Tax Law, which provides for the conversion of deferred tax assets into tax credits receivable from the taxation authorities. Note 26 provides details of the impact of this regulation on the deferred taxes recognised by the Group in 2019 and 2018.

Tax loss carryforwards generated prior to the creation of the tax group must be recovered through profits of the companies that generated them or through profits of the companies where the impaired assets that gave rise to the tax loss carryforwards are located.

The Bank opted to file consolidated tax returns for tax periods beginning on or after 1 January 2009, as provided for in Chapter VII, Title VII of the Recast Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, of 5 March (hereinafter, "RCITL").

2.14. Tangible assets

2.14.1. Tangible assets for own use

Tangible assets for own use include assets owned or acquired under lease financing which the Bank holds for current or future use for administration purposes, or for the production or supply of goods, and which are expected to be used for more than one financial year. This category includes tangible assets received by the Bank for the full or partial settlement of receivables from third parties and which are expected to be allocated for own use for an extended period of time.

Tangible assets for own use are carried at cost of acquisition, which is equal to the fair value of the consideration given plus all monetary expenditure incurred or committed, less:

1. Accumulated depreciation and,

2. Where appropriate, any estimated losses resulting from comparing the carrying amount of each item with its recoverable amount.

For these purposes, the cost of acquisition of foreclosed assets which become part of the Bank's tangible assets for own use is similar to the net amount of financial assets transferred in exchange for foreclosure.

Depreciation is calculated, using 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.

Depreciation for the year is recognised under "Amortisation and depreciation - Tangible assets" in the statement of profit or loss and is calculated using the following depreciation rates (based on the average estimated years of useful life of the various assets):

	Years of Estimated Useful Life
Buildings for own use	75
Furniture and fixtures	10 to 15
Motor vehicles	5 to 10
Other	4 to 10

Certain IT equipment is depreciated on a declining basis over four years (40%, 30%, 20% and 10%).

At each accounting close, the Bank assesses whether there are internal or external indications that the carrying amount of tangible assets exceeds their recoverable amount, in which case the carrying amount of the asset is written down to its recoverable amount. Simultaneously, future depreciation charges are adjusted in proportion to the adjusted carrying amount and the new remaining useful life, if this were also estimated, and the related impairment is recognised under "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss.

Similarly, when there are indications that an impaired tangible asset has recovered its value, the Bank recognises the reversal of the impairment booked in prior years with a credit to "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss and the corresponding future depreciation charges are adjusted accordingly. The reversal of an impairment loss on an asset will in no case constitute an increase in its carrying amount above the value it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of tangible assets for own use are also reviewed at least annually and any significant changes are recorded by adjusting the depreciation charges in the statements of profit or loss for subsequent years.

Repairs and maintenance costs of PPE assets for own use are recognised under "Other administrative expenses" in the statement of profit or loss in the year in which they are incurred.

The cost of acquisition or production of tangible assets which require more than one year to be in working condition includes finance costs accrued prior to their entering service, which have been charged by suppliers or relate to loans or any other type of external financing directly attributable to the acquisition, manufacture or construction. The capitalisation of finance costs is suspended during the years in which development of the asset is discontinued and ceases when all activities required to prepare the asset for its expected use or purpose are substantially completed.

2.14.2. Investment property

"Tangible assets - Investment property" reflect the carrying amount of land, buildings and other constructions, which are held either for rental or to obtain gains on their sale, as a result of possible future increases in their market price.

The criteria applied to recognise investment property, calculate depreciation and estimate their respective useful lives, as well as to recognise possible impairment losses, are the same as those applied for tangible assets for own use (see Note 2.14.1).

2.15. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance either arising from a legal transaction or developed internally by the Bank. Intangible asset are solely recognised when the Bank considers it probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

Intangible assets other than goodwill are recognised initially at cost of acquisition or production, and are subsequently measured at cost less any accumulated amortisation and, where appropriate, impairment losses.

Intangible assets are assets with a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

The estimated useful life of customer relationships has been estimated at 10 years.

When the useful life of intangible assets cannot be reliably estimated, intangible assets will be amortised over a ten year period. Unless there is evidence to the contrary, the useful life of goodwill is assumed to be ten years.

The amended article 12.1 of the Corporate Income Tax Law allows Entities to any method for the amortisation of intangible assets, other than the rates provided for in the tables of said Law, provided the Entity duly justifies the amortisation charge based on the useful life of the relevant asset, and further provided that the amortisation method is supported by an expert's report based on technical, operational and strategic criteria. To this end, the Bank has developed together with an external consultant a project, based on three main pillars, for estimating the useful lives of computer software classified as intangible assets:

- Framework; development of certain questionnaires for the allocation of each software's useful life.

- Expert opinion; validation of questionnaires and useful lives by the external consultant.

- Benchmark; useful life calibration by comparing with other industry actors, market amortisation practices and breakdown of assets' ages by categories.

As a result of this analysis, the Bank has modified the amortisation rates of these intangible assets; pursuant to the prevailing legislation, this change will be prospectively applied and is considered a change in accounting estimates. Following the above-mentioned analysis, the Bank considers that the useful lives of these assets has increased from 4 to 11 years.

The Bank recognises any impairment losses on these assets with a balancing entry under "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss. The criteria for recognising impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those applied to tangible assets for own use (see Note 2.14.1).

2.16. Provisions and contingent liabilities

Provisions are present obligations of the Bank arising from past events that could have a negative effect on the Bank's equity, occurrence of which is considered probable and the nature of which is specific, although their amount and/or settlement date are uncertain.

Contingent liabilities are possible obligations arising from past events and whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or when their amount cannot be measured with sufficient reliability.

The financial statements include all significant provisions for which it is considered more likely than not that the obligation will have to be settled (see Note 21). Contingent liabilities are not recognised in the statement of financial position, although information on any such liabilities is disclosed in the notes, in accordance with Bank of Spain Circular 4/2017.

Provisions are measured on the basis of the best information available at each reporting date on the consequences of the outcomes of the event, and are assessed at each reporting date. They are utilised to meet the specific obligations for which they were originally recognised, and are partially or fully reversed when such obligations cease to exist or are reduced.

Provisions considered necessary in accordance with the above criteria are recognised with a debit or credit to "Provisions or reversals of provisions" in the statement of profit or loss.

2.17. Acquisition and sale of assets under resale or repurchase agreements

Purchases of financial instruments with an obligatory resale commitment at a determined price ("repos") are recognised as financing granted under "Loans and advances - Credit institutions" or "Loans and advances - Customers", as applicable. Sales of financial instruments with an obligatory repurchase commitment at a determined price are recognised as financing received under "Financial liabilities at amortised cost - Deposits from credit institutions" or "Financial liabilities at amortised cost - Deposits from customers", as applicable. The difference between the purchase and sales price is recognised as interest over the life of the contract.

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

In the statement of financial position, "Non-current assets and disposal groups classified as held for sale" include the carrying amount of financial and non-financial assets that are not used in the Bank's operating activities, the carrying amount of which is expected to be recovered through their disposal.

Assets recognised under "Non-current assets and disposal groups classified as held for sale" essentially relate to foreclosed real estate assets, investment property and assets for own use.

The value at which real estate assets foreclosed or received in payment of debt must be initially recognised, regardless of the legal form used, shall be the lower of:

a) The carrying amount of the applied financial assets, determined as stated in the following paragraph, and

b) The fair value at the date of foreclosure, or receipt of the asset less the estimated costs to sell.

The smaller of these two amounts will be taken as the initial cost of the asset foreclosed or received in payment of debt.

For the purposes of calculating the carrying amount of the applied financial assets as at the date of initial recognition of the asset foreclosed or received in payment of debt, the allowances or provisions for these financial assets will be estimated on the basis of their accounting classification before the delivery thereof, treating the asset foreclosed or received in payment of debt as collateral.

This carrying amount shall be compared with the previous carrying amount and the difference shall be recognised as an addition to or release of allowances and provisions, as applicable.

To estimate the allowances and provisions for the financial assets applied, the recoverable amount of the collateral shall be taken as the fair value less the estimated costs to sell of the asset foreclosed or received in payment of debt, provided that the entity's experience of sales bears out its ability to realise the asset at its fair value.

For the purposes of the preceding paragraph, the entity's experience of sales shall be considered to bear out its ability to realise the asset at its fair value if the entity has a high rotation of its stock of similar assets, such that the average period they remain on its statement of financial position is acceptable within the framework of the related asset disposal plans.

Non-current assets and disposal groups classified as held for sale are not amortised or depreciated as long as they remain classified as such.

In the event that the carrying amount of the non-current assets held for sale exceeds fair value less cost to sell, the Bank adjusts the carrying amount of the assets for the amount of this excess, with a balancing entry in "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the statement of profit or loss. In the event of any subsequent increase in the fair value of an asset, the Bank proceeds to the reversal of previously recognised losses, and to increase the carrying amount of the asset up to the carrying amount prior to the eventual impairment of the asset less costs to sell, with a balancing entry in the above mentioned line item.

Pursuant to the applicable regulations, on the basis of its experience, the Bank has developed internal calculation methods to estimate the discount rate applicable to the reference value of collateral, the costs to sell associated with foreclosed assets, and the rotation of assets classified as completed dwellings, offices, commercial premises and multi-purpose industrial buildings. For the remaining categories the Bank applies the alternative solution of Bank of Spain Circular 4/2017 to estimate the discount rate applicable to the reference value.

Gains or losses on the sale of non-current assets and disposal groups classified as held for sale are recognised under "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the statement of profit or loss.

Any significant income and expenses from discontinued operations are recognised, net of tax, as a single amount under "Profit or loss after tax from discontinued operations" in the statement of profit or loss.

Nonetheless, financial assets, assets arising from employee benefit plans, deferred tax assets and insurance contract assets which form part of a disposal group or a discontinued operation are not measured using the criteria described in the preceding paragraphs, but rather in accordance with applicable accounting principles, which have been explained in previous sections.

2.19. Statement of cash flows.

The following terms are used in the statement of cash flows:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

2. Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing. Operating activities also include interest paid on any financing received, even when this is considered as financing activities. For the purposes of this statement, activities carried out involving the different categories of financial instruments described in Note 2.2 are considered as operating activities, with certain exceptions such as subordinated financial liabilities.

3. Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in subsidiaries, joint ventures and associates, non-current assets and disposal groups classified as held for sale and associated liabilities.

4. Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities, such as subordinated liabilities.

When preparing the statement of cash flows, current highly-liquid investments with a low risk of change in value have been considered as cash and cash equivalents. The Bank therefore considers the balances recognised under "Cash, cash balances with Central Banks and other demand deposits" in the statement of financial position as cash and cash equivalents.

2.20. Statement of changes in equity

The statement of changes in equity included in the accompanying financial statements shows all changes in the Bank's equity during the annual period ended 31 December 2019. This information is disclosed in two statements: the statement of other comprehensive income and the statement of total changes in equity. The main characteristics of the information contained in the two parts of this statement are as follows:

2.20.1. Statement of other comprehensive income

This part of the statement of changes in equity includes income and expenses generated or incurred by the Bank during the year in the ordinary course of business, distinguishing between those recognised in the statement of profit or loss for the year and those recognised directly in equity, in accordance with legislation in force.

This statement therefore comprises the following:

a. Profit or loss for the period

b. Net income and expenses recognised as accumulated other comprehensive income in equity.

c. Net income and expenses recognised permanently in equity.

d. Accrued income tax payable or recoverable on continuing operations in respect of the items listed in points b) and c) above.

e. Total recognised income and expenses, calculated as the sum of the preceding points.

The changes in income and expenses recognised in equity as accumulated other comprehensive income are as follows:

a. Valuation gains (losses): income, net of expenses incurred during the period, recognised directly in equity. Amounts recognised in this line item during the year continue to be carried at the initial value of other assets or liabilities, even when they are transferred to the statement of profit or loss in the same year, or they are reclassified to another line item.

b. Amounts transferred to profit or loss: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the statement of profit or loss.

c. Amounts transferred to the initial value of hedged items: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the initial value of assets or liabilities as a result of cash flow hedges.

d. Other reclassifications: transfers between valuation adjustments during the period in accordance with criteria established under prevailing legislation.

2.20.2. Statement of total changes in equity

The statement of total changes in equity presents all changes in equity, including those arising from changes in accounting principles and corrections of errors. This statement shows a reconciliation of the opening and closing carrying amount of all items comprising equity, grouping changes according to their nature, as follows:

a. Effect of changes in accounting criteria and correction of errors: changes in equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting criteria or the correction of errors.

b. Total comprehensive income for the year: the aggregate amount of the aforementioned items recognised in the statement of other comprehensive income.

c. Other changes in equity: the remaining items recognised in equity, such as increases or decreases in assigned capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers between consolidated equity line items and any other increases or decreases in equity.

2.21. Transition to Circular 4/2017 and opening balance at 1 January 2018

Effective from 1 January 2018, Circular 4/2017 superseded Circular 4/2004 for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The effects of first-time application of Circular 4/2017 are presented under below:

	(Thousands of euros)			
ASSETS	31.12.2017 Circular 4/2004	Classification of financial instruments	Impairment	Opening balance 01.01.2018 Circular 4/2017
Cash, cash balances with central banks and other demand deposits	1,699,572	–	–	1,699,572
Financial assets held for trading	100,319	–	–	100,319
Non-trading financial assets mandatorily at fair value through profit or loss	–	126,878	–	126,878
Financial assets designated at fair value through profit or loss	–	–	–	–
Financial assets at fair value through other comprehensive income	–	8,353,661	–	8,353,661
Available-for-sale financial assets	8,478,582	(8,478,582)		–
Financial assets at amortised cost	33,915,823	(699)	(31,843)	33,883,281
Held-to-maturity investments	–	–	–	–
Derivatives - hedge accounting	32,014	–	–	32,014
Investments in joint ventures and associates	2,467,644	–	–	2,467,644
Tangible assets	995,994	–	–	995,994
Intangible assets	10,714	–	–	10,714
Tax assets	2,766,913	(2,317)	16,038	2,780,634
Other assets	289,013	–	–	289,013
Non-current assets and disposal groups classified as held for sale	158,378	–	(469)	157,909
TOTAL ASSETS	50,914,966	(1,059)	(16,274)	50,897,633

Differences recognised under “Available-for-sale financial assets” mainly arose from reclassification as “Financial assets at fair value through other comprehensive income” and “Non-trading financial assets mandatorily at fair value through profit or loss”.

LIABILITIES AND EQUITY	(Thousands of euros)			
	31.12.2017 Circular 4/2004	Classification of financial instruments	Impairment	Opening balance 01.01.2018 Circular 4/2017
Financial liabilities held for trading	84,888	–	–	84,888
Financial liabilities designated at fair value through profit or loss	–	–	–	–
Financial liabilities at amortised cost	46,110,832	–	–	46,110,832
Derivatives - hedge accounting	88,200	–	–	88,200
Fair value changes of items in a portfolio hedge of interest rate risk	–	–	–	–
Provisions	385,477	–	21,148	406,625
Tax liabilities	45,783	(2,317)	–	43,466
Share capital repayable on demand	–	–	–	–
Other liabilities	273,910	–	–	273,910
Liabilities included in disposal groups classified as held for sale	–	–	–	–
TOTAL LIABILITIES	**46,989,090**	**(2,317)**	**21,148**	**47,007,921**
OWN FUNDS				
Capital	2,453,657	–	–	2,453,657
Share premium	433,901	–	–	433,901
Equity instruments issued other than capital	–	–	–	–
Other equity items	–	–	–	–
Retained earnings	1,099,753	–	–	1,099,753
Revaluation reserves	–	–	–	–
Other reserves	–	1,965	(37,422)	(35,457)
Less: Treasury shares	(226,940)	–	–	(226,940)
Profit for the period	291,958	–	–	291,958
Less: Interim dividends	(110,581)	–	–	(110,581)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(15,872)	(707)	–	(16,579)
TOTAL EQUITY	**3,925,876**	**1,258**	**(37,422)**	**3,889,712**

2.22. Other information

a) Merger with ABANCA Holding Financiero, S.A.

Dated 29 April 2019, the Boards of Directors of ABANCA Corporación Bancaria, S.A. (absorbing company) and ABANCA Holding Financiero, S.A. (absorbed company) approved the common draft terms of merger; dated 10 June 2019, the Annual General meeting of Shareholders of ABANCA Corporación Bancaria, S.A. approved the merger.

The merger has been completed through the absorption of ABANCA Holding Financiero, S.A. by ABANCA Corporación Bancaria, S.A.; ABANCA Holding Financiero, S.A. was wound up and dissolved without liquidation, and all of its assets and liabilities being transferred in bloc to ABANCA Corporación Bancaria, S.A. as universal successor, and was expressly subject the condition precedent of payment of a €190,000 thousand dividend out of reserves prior to the Merger (see Note 3), in compliance with the common draft terms of merger approved by the boards of directors of both companies.

In this context, the object sought with the merger is as follows:

- To enhance the level of own funds available on a consolidated basis in the group to which both ABANCA Holding Financiero, S.A. and ABANCA Corporación Bancaria, S.A. belong, for calculation of the required capital ratios.

- To streamline of the Group's corporate and governance structures, increase its transparency vis-à-vis markets and investors, and reduce costs and duplications.

Dated 10 February 2020, ABANCA received the European Central Bank's notice of non-opposition to the merger. Additionally, dated 11 February 2020, ABANCA received the authorisation from the Spanish Ministry of Economic Affairs and Digital Transformation. Finally, dated 18 February 2020 the merger was filed with the Business Register.

Under the applicable legal provisions, the effective date of merger shall be the starting date of the period in which the merger is approved, provided this date is later than the date when both companies had joined the group. Accordingly, 1 January 2019 has been taken as the date from which the operations of ABANCA Holding Financiero, S.A. are deemed, for accounting purposes, performed on behalf of ABANCA Corporación Bancaria, S.A. In compliance with the applicable provisions, the acquired assets and liabilities have therefore been measured at their respective carrying amounts as presented in the consolidated financial statements of ABANCA Holding Financiero Group. Consequently, the assets and liabilities of ABANCA Corporación Bancaria, S.A. have been measured taking into account the respective values at which they were presented in the financial statements of ABANCA Holding Financiero Group for the annual period ended 31 December 2018.

The merger balance sheet at 1 January 2019, merger date for accounting purposes, showing the value of ABANCA Holding Financiero, S.A.'s assets and liabilities was as follows:

ASSETS	Thousands of euros	LIABILITIES	Thousands of euros
	01.01.2019		01.01.2019
Cash, cash balances with central banks and other demand deposits	13,287	Financial liabilities at amortised cost	283,445
Financial assets held for trading	3,818	Other liabilities	286
Financial assets at amortised cost	7,678		
Investments in subsidiaries, joint ventures and associates	903,713	TOTAL LIABILITIES	283,731
Tangible assets	1		
Intangible assets	1	Own funds	733,501
Tax assets	88,734		
		TOTAL EQUITY	733,501
TOTAL ASSETS	1,017,232	TOTAL EQUITY AND LIABILITIES	1,017,232

b) Purchase of Deutsche Bank's Private & Commercial Business ('PCB') Portugal

In 2018, ABANCA submitted the successful bid in the formal sale process of Deutsche Bank's Private & Commercial Business ("PCB") Portugal retail banking unit. With this transaction ABANCA increases its international business and gains presence in the personal and private banking segment in which Deutsche Bank PCB Portugal specialises.

Dated 9 June 2019, upon fulfilment of all conditions precedent and after receiving the required authorisations from the regulatory authorities, the purchase was formally completed; accordingly, for accounting purposes, that date was taken as the acquisition date.

With this transaction, ABANCA Group has acquired a business unit with 69,133 customers, a loan portfolio of €2,584 million, €912 million in customer deposits, and €2,988 million in off-balance sheet customer funds.

The breakdown of the value of the assets acquired and liabilities assumed as of 9 June 2019 is presented below:

ASSETS	Thousands of euros 09.06.2019	LIABILITIES	Thousands of euros 09.06.2019
Cash, cash balances with central banks and other demand deposits	855	Financial liabilities at amortised cost	933,665
Non-trading financial assets mandatorily at fair value through profit or loss	3,148	Other liabilities	2,682
Financial assets at amortised cost	2,583,856	Pro-forma Funding (**)	1,573,390
Tangible assets	3,603		
Intangible assets	3,764	TOTAL LIABILITIES	2,509,737
Other assets	978		
Non-current assets and disposal groups classified as held for sale	3,937	Notional Equity (*)	90,404
		TOTAL EQUITY	90,404
TOTAL ASSETS	2,600,141	TOTAL EQUITY AND LIABILITIES	2,600,141

(*) *Since the acquired business had no separate equity, the parties agreed that the business equity should be equal to 10.5% of the transferred RWAs.*

(**) *The pro-forma funding reflects Deutsche Bank's Private & Commercial Business ('PCB') Portugal funding needs that, subsequent to the merger, are covered by ABANCA.*

On the business combination acquisition date, ABANCA measured the fair value of the acquired business and as a result of the difference between the acquisition price (€42,809 thousand) and the fair value of the acquired business (€94,000 thousand) a negative goodwill of €51,191 thousand arose and was recognised in the statement of profit or loss.

At 31 December 2019, ABANCA has adjusted the initial measurement and accounting for of this business resulting from the independent expert's valuation report and has completed the allocation of the transaction costs to specific assets, liabilities and contingent liabilities ("Purchase Price Allocation" or "PPA").

The net amount of the adjustments made to the initially recognised value amounts to €854 thousand, net of taxes. These adjustments include the recognition of a negative valuation adjustment of €5,851 thousand, as the best estimate of the difference between the carrying amount and the fair value (present value of future expected cash flows) of tangible assets and liabilities, and of positive adjustment amounting to €6,705 thousand relating to the measurement of intangible assets.

Consequently, ABANCA has fully recognised €52,045 thousand as income under "Negative goodwill recognised in profit or loss" in the statement of profit or loss at 31 December 2019.

c) Purchase of, and merger with Banco Caixa Geral, S.A.

On 22 November 2018 ABANCA was awarded in the formal sale process of Banco Caixa Geral, S.A. organised by the Portuguese Government. Banco Caixa Geral, S.A. is the Spanish bank through which Caixa Geral de Depósitos Group operated in Spain. Dated 9 September 2019, ABANCA received the European Central Bank (ECB) authorisation that concluded the purchase of Banco Caixa Geral, S.A.

With the integration of Banco Caixa Geral, ABANCA will increase its commercial network, extend its presence to new provinces and strengthen its position in other provinces where the Bank already operates.

ABANCA gained control on 1 September 2019 and, accordingly, this was the date of acquisition for accounting purposes.

Dated 14 October 2019, the Boards of Directors of ABANCA Corporación Bancaria, S.A. and Banco Caixa Geral, S.A. approved the common draft terms of merger. The merger has been completed through the absorption of Banco Caixa Geral, S.A. (the absorbed entity) by ABANCA Corporación Bancaria, S.A. (the absorbing entity), Banco Caixa Geral, S.A. was wound up and dissolved without liquidation, and all of its assets and liabilities being transferred in bloc to ABANCA Corporación Bancaria, S.A. as universal successor.

In this context, the object sought with the merger is the streamlining of the corporate, organisational and operational structure of the ABANCA Holding Group in Spain, allowing for a better use of the Group's resources. The merger will enable the corporate and operational structure of the ABANCA Group to be streamlined and simplified, by incorporating the administrative structures of the absorbed entity into the organisational structure of the absorbing entity, without altering its business capability. The merger will also enable greater benefit to be drawn from the Group's advantages and capabilities in Spain, in particular when designing solutions for customers and compiling the catalogue of products offered by the entity.

On 9 December 2019, the General Meetings of Shareholders of both of ABANCA and Banco Caixa Geral approved the merger of the both entities; the merger has been filed with the Business Register on 13 March 2020.

The merger balance sheet at 1 September 2019, merger date for accounting purposes, showing the value of Banco Caixa Geral, S.A.'s assets and liabilities is as follows:

ASSETS	Thousands of euros 01.09.2019	LIABILITIES	Thousands of euros 01.09.2019
Cash, cash balances with central banks and other demand deposits	136,788	Financial liabilities at amortised cost	4,129,423
Financial assets at fair value through other comprehensive income	898,407	Derivatives - hedge accounting	19
Financial assets at amortised cost	3,522,831	Provisions	35,054
Derivatives - hedge accounting	11	Tax liabilities	15,518
Tangible assets	52,691	Other liabilities	33,698
Intangible assets	3,629		
Tax assets	72,184	TOTAL LIABILITIES	4,213,712
Other assets	82,319		
Non-current assets and disposal groups classified as held for sale	1,397	Own funds	532,947
		Accumulated other comprehensive income	23,598
		TOTAL EQUITY	556,545
TOTAL ASSETS	4,770,257	TOTAL EQUITY AND LIABILITIES	4,770,257

On the business combination acquisition date, ABANCA measured the fair value of the acquired business and as a result of the difference between the acquisition price (€384,145 thousand) and the fair value of the acquired business (€555,399 thousand) a negative goodwill of €171,254 thousand arose and was recognised in the statement of profit or loss.

At 31 December 2019, the Bank has adjusted the measurement and accounting for of this business combination resulting from the independent expert's valuation report and has completed the allocation of the transaction costs to specific assets, liabilities and contingent liabilities ("Purchase Price Allocation" or "PPA").

The amount of the adjustments made to the initially recognised value amounts to €8,380 thousand, net of taxes. These adjustments include the recognition of a negative valuation adjustment of €7,112 thousand, as the best estimate of the difference between the carrying amount and the fair value (present value of future expected cash flows) of Banco Caixa Geral, S.A. tangible assets and liabilities, and of positive adjustment amounting to €15,492 thousand relating to the measurement of intangible assets.

Consequently, ABANCA has fully recognised €179,634 thousand as income under "Negative goodwill recognised in profit or loss" in the statement of profit or loss at 31 December 2019.

If the acquisition date had been 1 January 2019, this business would have contributed €91,813 thousand income (gross margin) and €11,161 thousand profit after tax.

The business' income (gross margin) and profit after tax included as from the acquisition date in the statement of profit or loss has amounted to €33,817 thousand and €3,124 thousand, respectively.

3. Distribution of profit/application of loss of the Bank

The proposed distribution of the Bank's profit for 2019 to be submitted by the directors for approval by the shareholders at their general meeting, and the distribution of profit for 2018 approved by the shareholders at the general meeting held on 10 June 2019, are as follows:

	Thousands of euros	
	2019	2018
Voluntary reserves	184,515	197,701
Dividends	174,910	172,166
	359,425	**369,867**

The amount to be distributed does not exceed the profits reported by the Bank since the end of the previous reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Consolidated Companies Law.

In accordance with the minutes to the board of directors' meeting held on 4 February 2020, an interim dividend for 2019 amounting to €14,158 thousand was distributed to the shareholders and paid on 7 February 2020.

Set out below is the mandatory provisional accounting statement issued pursuant to the provisions of Article 277 of the Companies Law to reflect the existence of sufficient liquidity at the date of approval of the interim dividend:

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2019 and 12/31/2019	359,425
Interim dividends for 2019 already paid	160,752
Interim dividend proposed on 4 February 2020	14,158

On 28 October 2019, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend amounting to €60,707 thousand that was paid on 31 October 2019.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2019 and 09/30/2019	185,935
Interim dividends for 2019 already paid	100,045
Interim dividend proposed on 28 October 2019	60,707

In accordance with the minutes of the meeting of the Board of Directors held on 29 July 2019, an interim dividend out of reserves amounting to €190,000 thousand was distributed and paid to shareholders on 27 September 2019. This was an extraordinary dividend out of unrestricted reserves required under the merger through absorption of ABANCA Holding Financiero, S.A. (absorbed company) and ABANCA (absorbing company), in which the former was terminated and transferred its assets and liabilities in bloc and to the latter, in the capacity of universal successor (see Note 2.22).

On 29 July 2019, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend amounting to €37,560 thousand that was paid on 2 August 2019.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2019 and 06/30/2019	211,115
Interim dividends for 2019 already paid	62,485
Interim dividend proposed on 29 July 2019	37,560

On 29 April 2019, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend amounting to €62,485 thousand that was paid on 3 May 2019.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2019 and 31/03/2019	131,827
Interim dividends for 2019 already paid	–
Interim dividend proposed on 29 April 2019	62,485

On 4 February 2019, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend for 2018 amounting to €12,859 thousand that was paid on 5 February 2019.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2018 and 31/12/2018	369,867
Interim dividends for 2018 already paid	159,307
Interim dividend proposed on Monday, February 4, 2019	12,859

On 29 October 2018, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend for 2018 amounting to €60,505 thousand that was paid on 30 October 2018.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2018 and 09/30/2018	361,220
Interim dividends for 2018 already paid	98,802
Interim dividend proposed on Monday, October 29, 2018	60,505

On 27 July 2018, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend for 2018 amounting to €36,702 thousand that was paid on 30 July 2018.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2018 and 30/06/2018	205,044
Interim dividends for 2018 already paid	62,100
Interim dividend proposed on Friday, July 27, 2018	36,702

On 27 April 2018, the Board of Directors of the Bank approved the distribution to Shareholders of an interim dividend for 2018 amounting to €62,100 thousand that was paid on 30 April 2018.

Supporting accounting statement	Thousands of euros
Profit or loss obtained between 01/01/2018 and 31/03/2018	140,100
Interim dividends for 2018 already paid	–
Interim dividend proposed on 27 April 2018	62,100

4. Remuneration of the Board of Directors and Senior Management

4.1. Remuneration of the Board of Directors

Details of remuneration and allowances accrued by members of the Bank's board of directors in 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
Mr. Juan Carlos Escotet Rodríguez (*)	275	275
Ms. Ana da Cunha Barros (**)	32	–
Ms. Carina Szpilka Lázaro	245	226
Ms. Leticia Iglesias Herraiz (***)	265	84
Mr. Eduardo Eraña Guerra	244	230
Mr. José García Montalvo	275	275
Mr. José Ramón Rodrigo Zarza	300	300
Mr. Pedro Raúl López Jácome	300	300
	1,936	**1,690**

(*) In 2019, Mr. Escotet also received a direct remuneration from ABANCA Holding Financiero, S.A. amounting to €280 thousand (€555 thousand in 2018).

(**) Appointed director of ABANCA Corporación Bancaria, S.A. on 29 July 2019.

(***) Appointed director of ABANCA Corporación Bancaria, S.A. on 28 May 2018.

The remuneration paid to Mr. Francisco Botas Ratera, ABANCA's Chief Executive Officer, for the performance of his executive functions in 2019, in accordance with the contract signed entered into by him and the Bank, amounted to €2,588 thousand (€2,600 thousand in 2018), of which €1,288 thousand relate to the variable remuneration for 2019 (€1,300 thousand in 2018 relating to the variable remuneration for 2017), including both the portion effectively settled in 2019 (i.e. 40% thereof, amounting to €515 thousand) and the portion deferred to subsequent years (60% thereof, amounting to €773 thousand). It should also be noted that 50% of the accrued variable remuneration (paid and/or deferred) is settled in shares of the Entity, a measure first implemented in 2017. In 2019 and 2018 no remuneration in kind was by the Group.

Upon approval of the relevant resolutions by the General Meeting of Shareholders and by the Board of Directors, a "Long-Term Incentive 2017-2023" (LTI) linked to the fulfilment of the 2018-2020 Strategic Plan has been established as a new, exceptional and additional to the above mentioned, component of variable remuneration. Following the General Meeting held on 25 June 2018, a maximum amount of €1,170 thousand (maximum amount that may eventually be reduced or entirely cancelled if the Bank does not meet certain targets of the 2018-2020 Strategic Plan) has been established in favor of ABANCA's CEO; upon fulfilment of the Plan's vesting conditions, this amount will be entirely settled in Bank shares in 2022.

Likewise, retirement premiums (pension commitment) in favour of the Chief Executive Officer were paid amounting to €65 thousand (€65 thousand in 2018). In 2019, life and disability insurance premiums amounted to €29 thousand (€27 thousand in 2018).

At 31 December 2019, the aggregate amount of his vested rights and mathematical provisions totalled €244 thousand (€171 thousand at 31 December 2018), and the amount of termination benefit upon extinction of the CEO's contractual relationship does not exceed the amount equivalent to two years of fixed remuneration.

4.2. Remuneration of senior management

When preparing these annual financial statements, 13 individuals were considered senior management personnel in 2019 (12 individuals in 2018), albeit one of them has not been considered for the entire 2019 period due to his decease. For these purposes, senior management is understood to comprise general managers and people holding similar positions that carry out management duties reporting directly to the governing bodies, executive committees or the CEO. The CEO is not included, the information relating to the CEO can be found in Note 4.1 above.

The remuneration accrued by the members of the Bank's senior management personnel, as defined above, totalled €4,891 thousand in 2019 (€4,482 thousand in 2018). These amounts include total remuneration (fixed, monetary and in-kind) and variable remuneration, the latter comprising the amounts effectively paid during 2019 (for this personnel segment, 60% of accrued variable remuneration) and the amounts deferred to subsequent years (i.e. 40% of accrued variable remuneration). It should also be noted that 50% of the accrued variable remuneration (paid and/or deferred) is settled in shares of the Entity, a measure first implemented in 2017.

Following the General Meeting held on 25 June 2018, an additional maximum amount of €2,729 thousand (maximum amount that may eventually be reduced or entirely cancelled if the Bank does not meet certain targets of the 2018-2020 Strategic Plan) has been established for the "Long-Term Incentive 2017-2023" (LTI) linked to the fulfilment of the 2018-2020 Strategic Plan; upon fulfilment of the Plan's vesting conditions, this amount will be entirely settled in Bank shares in 2022.

During 2019 and 2018 no termination benefits were paid to senior management personnel.

4.3. Pension and insurance commitments with senior management personnel

The accumulated amount of the vested rights and mathematical provisions generated through contributions by the Bank to pension plans for senior management personnel, with regard to rights for past services, totalled €1,026 thousand in 2019 (€883 thousand in 2018 for the aforementioned personnel).

In 2019 contributions were made for retirement, either to pension plans or to supplementary insurance taken out for senior management personnel, amounting to €57 thousand (€53 thousand in 2018). Additionally, in 2018 contributions were made for risk contingencies (death and disability) amounting to €119 thousand (€91 thousand in 2018).

The life insurance premiums paid for senior management personnel (other than pension commitments) totalled €28 thousand in 2019 (€27 thousand in 2018), with an insured sum of €300 thousand per person.

4.4. Senior management indemnity clauses

At 31 December 2019, the contracts of three members of senior management include compensation for all items, in the event of unfair dismissal or termination, at the request of the Entity, for an amount of €615 thousand, €100 thousand and €308 thousand, respectively (four members for an amount of €595 thousand, €200 thousand, €292 thousand and €100 thousand, respectively, at 31 December 2018). In no case does this compensation exceed two years' pay.

5. Cash, cash balances with Central Banks and other demand deposits

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

	Thousands of euros	
	2019	2018
Cash	200,464	149,471
Cash balances with Central Banks	2,684,764	953,963
Other demand deposits	187,134	260,996
	3,072,362	**1,364,430**

Note 43 includes a breakdown of the maturity periods of these assets at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

6. Loans and advances to credit institutions

a) *Breakdown*

The breakdown of this item in the statements of financial position at 31 December 2019 and 2018, by classification, currency and type of transaction, is as follows:

	Thousands of euros	
	2019	2018
Currency:		
Euro	719,907	1,258,455
Foreign currency	230,133	144,238
	950,040	**1,402,693**
Nature:		
Term accounts	518,214	882,185
Repurchase agreements	429,290	520,508
Other accounts	2,536	–
	950,040	**1,402,693**
Valuation adjustments:		
Impairment losses on assets	–	–
Accrued interest	1,351	504
Micro-hedges	–	–
	951,391	**1,403,197**

Note 43 includes a breakdown of the maturity periods of these assets at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

b) *Valuation adjustments – Impairment losses*

During 2019 and 2018 there were no changes in the provisions for impairment losses on loans and advances to credit institutions.

7. Debt securities

a) *Breakdown*

The breakdown of this item in the statement of financial position at 31 December 2019 and 2018, by classification, currency, geographical area and type of transaction, is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Financial assets held for trading	76,981	–
Non-trading financial assets mandatorily at fair value through profit or loss	29,314	28,925
Financial assets at fair value through other comprehensive income	4,084,660	6,718,296
Financial assets at amortised cost	5,895,751	3,868,852
	10,086,706	10,616,073
Currency:		
Euro	10,002,731	10,580,694
Foreign currency	83,975	35,379
	10,086,706	10,616,073
Geographical area:		
Spain	6,722,796	6,920,891
European Union (excluding Spain)	3,225,871	3,572,051
United States of America and Puerto Rico	137,692	107,558
Rest of the world	347	15,573
	10,086,706	10,616,073
Nature:		
Domestic debt securities		
Treasury bills, Government mid- and long-term bonds	3,011,971	2,954,351
Other book-entry debt securities	114,239	254,818
Foreign debt securities		
Republic of Italy	1,771,895	1,545,018
Republic of Portugal	825,932	966,510
Other debt securities	8,800	–
Issued by financial institutions	738,877	1,181,438
Other fixed income securities	3,614,992	3,713,938
	10,086,706	10,616,073
Valuation adjustments:		
Micro-hedges	18,647	58,604
	10,105,353	10,674,677

At the 2019 reporting date the Bank had pledged debt securities for a nominal amount of €4,092,921 thousand (€4,892,145 thousand at 31 December 2018), and a market value of €3,861,993 thousand (€4,500,403 thousand at 31 December 2018), in order to gain access to financing from the European Central Bank.

In addition, at 31 December 2019 the Bank had assigned securities amounting to €2,886,779 thousand to credit institutions and customers (€3,340,758 thousand at 31 December 2018) (see notes 16 and 17).

Note 43 includes a breakdown of the maturity periods of these assets at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

The portfolio of financial assets at amortised cost includes the bonds issued by Sareb in payment of the assets transferred by the Bank and its subsidiaries. The fair value amounted to €3,213,800 thousand at 31 December 2019 (€3,275,300 thousand at 31 December 2018).

The inputs used for valuation, through discounting cash flows, were the quoted prices of Spanish debt with a similar maturities, ensuring that the option to extend maturity did not entail significant changes to the fair value. The bonds issued by Sareb are listed on the AIAF fixed-income market and are underwritten by the Spanish State. At 31 December 2019 and 2018, the bonds issued by Sareb have the following characteristics:

At 31 December 2019 -

ISIN	Issue	Maturity (*)	Thousands of euros		Interest rate
			Nominal	Fair Value	
ES0352506234	SAREB senior bonds	31/12/2020	1,809,100	1,809,100	3-month Euribor + 3 b.p.
ES0352506283	SAREB senior bonds	31/12/2020	1,404,700	1,404,700	3-month Euribor - 7 b.p.
			3,213,800	3,213,800	

(*) The bond subscription contract sets out successive bond renewal options which may be exercised by the issuer at a maximum interest rate equivalent to 3-month Euribor plus 200 basis points.

At 31 December 2018 -

ISIN	Issue	Maturity (*)	Thousands of euros		Interest rate
			Nominal	Fair Value	
ES0352506226	SAREB senior bonds	31/12/2019	1,404,700	1,404,700	3-month Euribor - 11 b.p.
ES0352506234	SAREB senior bonds	31/12/2020	1,870,600	1,870,600	3-month Euribor + 3 b.p.
			3,275,300	3,275,300	

(*) The bond subscription contract sets out successive bond renewal options which may be exercised by the issuer at a maximum interest rate equivalent to 3-month Euribor plus 200 basis points.

Gains or losses, arising from financial transactions in the portfolio of debt securities, recognised in the statements of profit or loss 31 December 2019 and 2018 amounted to €79,206 thousand and €107,863 thousand, respectively (see Note 33).

In 2019, the Bank sold debt instruments issued by the Republic of Italy with a nominal amount of €258,400 thousand, that were held in the portfolio of financial assets at amortised cost. Those sales were not only compliant with the Bank's investment policies and fixed-income strategy, but were also consistent with the business model within which these assets were held (collection of contractual cash flows).

b) Valuation adjustments – Impairment losses

At 31 December 2019, the Bank has recognised under "Equity - Accumulated other comprehensive income" €2,033 thousand as a collective hedge for the assets in this portfolio (€2,211 thousand at 31 December 2018).

c) Other information -

As previously stated in Note 2.22, in 2018 ABANCA approved the purchase of the retail banking unit of Deutsche Bank's Private & Commercial Business ('PCB') Portugal and of Banco Caixa Geral, S.A., the Spanish bank through which Caixa Geral de Depósitos Group operates in Spain.

As a direct consequence of these purchases and in order to strengthen the Bank's solvency position and to increase control over the volatility of own funds, dated 27 March 2019 the Bank approved the discontinuation of investments the following debt securities sub-portfolios included in portfolios at fair value through other comprehensive income:

- Securities with an agreed maturity over 20 years (currently, securities maturing after 2039).
- Securities issued by the Republic of Italy

From that date, any investments of the Bank in those kinds of securities may not be held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

As of the date of this change in the business model, the Bank considered that an immediate sale of the relevant portfolios was not the best procedure for recouping its investment. Accordingly, the relevant assets will be managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

Given the above, the Bank considered that this change in the business model affected every asset not meeting the conditions required to be held within portfolios at fair value through other comprehensive income and that these assets should therefore be reclassified to portfolios at amortised cost. In accordance with the existing accounting regulations, the above-mentioned reclassification was effective for accounting purposes as of 1 April 2019, the first day of the reporting period following the closing date of the first quarter of 2019.

In compliance with the provisions Circular 4/2017, effective as 1 April 2019 the reclassified portfolio, with a carrying amount of €1,692,376 thousand, has been measured as if at always been measured at amortised cost. To this end, the cumulative gain or loss previously recognised in other comprehensive income and, where appropriate, any deferred tax assets or liabilities recognised thereon, were removed from equity and adjusted against the fair value of the financial asset at the reclassification date. Consequently, there has been no impact on profit or loss.

The breakdown at 1 April 2019 of financial assets held within these portfolios is as follows:

	Thousands of euros		
	Nominal amount	Carrying amount	Fair Value
Assets with agreed maturity after 2039	567,000	829,305	904,501
Assets issued by the Republic of Italy	796,400	863,071	831,059
	1,363,400	**1,692,376**	**1,735,560**

8. Equity instruments

a) Breakdown-

At 31 December 2019 and 2018, the breakdown, by classification, currency, listing, geographical area and type of transaction, of this item in the statement of financial position is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Non-trading financial assets mandatorily at fair value through profit or loss	38,180	116,644
Financial assets at fair value through other comprehensive income	208	3,065
	38,388	119,709
Currency:		
Euro	37,898	89,493
Foreign currency	490	30,216
	38,388	119,709
Listing:		
Listed	948	101,448
Unlisted	37,440	18,261
	38,388	119,709
Geographical area:		
Spain	34,995	60,920
European Union (excluding Spain)	2,668	46,479
United States of America and Puerto Rico	725	4,123
Rest of the world	–	8,187
	38,388	119,709
Nature:		
Shares in Spanish companies	20,654	24,552
Shares in foreign companies	3,394	57,918
Investment funds shares/units	14,340	37,239
	38,388	119,709
Valuation adjustments:		
Impairment losses	–	–
	38,388	119,709

In 2019, the Bank received dividends totalling €4,656 thousand on these investments, which have been recognised under “Dividend income” in the accompanying statement of profit or loss (€2,926 thousand in 2018) (see Note 30).

Gains or losses, arising from financial transactions in the portfolio of equity, instruments recognised in the statements of profit or loss 31 December 2019 and 2018 amounted to €7,679 thousand and €22,048 thousand, respectively (see Note 33).

b) Acquisitions and disposals

The acquisitions and disposals carried out by the Bank in 2019 and 2018 relate mainly to the sale-purchase of listed securities and units/shares in investment funds.

9. Loans and advances to other debtors

a) Breakdown

The breakdown of the balance of this item in the statement of financial position at 31 December 2019 and 2018, showing the Bank's exposure to credit risk in its primary activity, broken down by instrument and status of transactions, borrower's sector, borrower's geographical area of residence, type of interest rate and currency of transactions, is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Non-trading financial assets mandatorily at fair value through profit or loss	–	699
Financial assets at amortised cost	38,325,353	31,591,871
	38,325,353	**31,592,570**
Instrument and status:		
Commercial loans	1,783,393	1,288,136
Secured loans	21,403,312	17,144,219
Demand and other loans	1,124,547	1,100,862
Other term loans	12,651,432	10,976,281
Repurchase agreements	347,688	–
Impaired assets	1,014,981	1,083,072
	38,325,353	**31,592,570**
Borrower's sector:		
Spanish general government	2,937,381	2,773,025
Other resident sectors	29,511,987	25,478,134
Non-resident	5,875,985	3,341,411
	38,325,353	**31,592,570**
Geographical area:		
Spain	32,449,368	28,251,159
European Union (excluding Spain)	4,628,065	2,264,128
United States of America and Puerto Rico	356,816	350,254
Other OECD countries	567,034	480,147
Latin America	148,011	109,093
Rest of the world	176,059	137,789
	38,325,353	**31,592,570**
Type of interest rate:		
Fixed interest rate	9,994,927	6,340,330
Floating interest rate	28,330,426	25,252,240
	38,325,353	**31,592,570**
Currency:		
Euros	36,538,597	30,222,684
Foreign currency	1,786,756	1,369,886
	38,325,353	**31,592,570**
Valuation adjustments		
Impairment losses	(575,043)	(599,928)
Accrued interest	55,808	35,325
Commissions	(74,215)	(55,517)
Discount on acquisition	(8,758)	(6,917)
Micro-hedges	116,504	13,189
Transaction costs	42,837	3,776
	37,882,486	**30,982,498**

Note 43 includes a breakdown of the maturity periods of these assets at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

At the 2019 reporting date, the Bank had pledged loans and receivables for an amount of €2,185,706 thousand (€2,535,735 thousand at 2018 year-end) as security for the credit system operations of the European Central Bank.

At 31 December 2019 and 2018 there were no loans and advances to customers for significant amounts without fixed maturity dates.

At 31 December 2019 the Bank has recognised loans and advances to customers arising from extraordinary activities amounting to €236,472 thousand (€380,527 thousand at 31 December 2018), in respect of guarantees extended, requested by counterparties in arranging transactions with derivatives, or enforceable guarantees granted, recognised or pending recognition by third parties.

Information on the credit risk assumed by the Bank in relation to these financial assets is provided in Note 44. Certain information on the liquidity and interest risks assumed by the Bank with regard to these assets is provided in Notes 41 and 45, respectively.

b) Finance leases -

The reconciliation between the total gross investment in the leases and the present value of minimum lease payments receivable at 31 December 2019 and 2018, is as follows:

	Thousands of euros	
	2019	2018
Minimum lease payments receivable	349,332	347,003
Non-guaranteed residual value	27,410	43,124
Gross lease investment (*)	**376,742**	**390,127**

(*) Includes impaired assets.

At 31 December 2019, the accumulated allowance for uncollectible minimum lease payments receivable totals €7,003 thousand (€6,369 thousand at 31 December 2018).

c) Securitisations

In 2019 and 2018 the Bank has carried out no securitisation operations. However, in 2019 the Bank has recognised a securitisation operation as an addition arising from a business combination the assignment to "IM BCG RMBS 2 FT, Fondo de Titulización" of assets amounting to €866,663 thousand 31 December 2019.

Moreover, in 2018 a mortgage securitisation operation was cancelled.

At 31 December 2019, the carrying amount of the assets transferred totalled €2,408,154 thousand (€1,647,346 thousand at 31 December 2018). At 31 December 2019 the carrying amount of liabilities associated with financial assets that have not been derecognised from the statement of financial position, inasmuch as under the conditions agreed for the transfer of these assets the Bank retained substantially all risks and rewards associated therewith, totalled €2,407,868 thousand (€1,647,346 thousand at 31 December 2018).

Details of the Bank's securitisation funds at 31 December 2019 and 2018 are provided in Appendix II.

d) *Impairment losses*

Changes in the provisions for impairment losses on these assets during the annual periods ended 31 December 2019 and 2018 are as follows:

	Thousands of Euros
Balance at Monday, January 1, 2018	**779,094**
Charges to profit or loss for the period	32,154
Impact from application of Circular 4/2017	31,843
Transfers	
To provisions for foreclosed assets	(3,702)
To provisions for investments in subsidiaries, joint ventures and associates (Note 12)	(2,525)
	(6,227)
Reversal of provisions on reclassification to write-off loans (Note 9-f)	(128,739)
Use of provisions for loan cancellation/waiver	(36,097)
Sale of loan portfolio (*)	(72,100)
Balance at Monday, December 31, 2018	**599,928**
By accounting classification:	
Performing exposures (Stage 1).	*67,718*
Exposures under special monitoring (Stage 2).	*87,100*
Non-performing exposures (Stage 3).	*445,110*
Balance at 1 January 2019	**599,928**
Charges to profit or loss for the period	30,722
Additions arising from business combinations	127,467
Transfers	
To provisions for foreclosed assets	(1,325)
To provisions for investments in subsidiaries, joint ventures and associates (Note 12)	(911)
	(2,236)
Reversal of provisions on reclassification to write-off loans (Note 9-f)	(111,489)
Use of provisions for loan cancellation/waiver	(12,289)
Sale of loan portfolio (*)	(57,060)
Balance at 31 December 2019	**575,043**
By accounting classification:	
Performing exposures (Stage 1).	*82,678*
Exposures under special monitoring (Stage 2).	*104,648*
Non-performing exposures (Stage 3).	*387,717*

(*) The balance of this line item basically relates to derecognitions resulting from loan portfolios sold during 2019 and 2018.

e) Impaired assets-

The breakdown of financial assets classified as loans and receivables and considered impaired due to credit risk is as follows:

Financial year 2019

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
Impaired assets	582,667	47,196	44,792	340,326	1,014,981
	582,667	47,196	44,792	340,326	1,014,981

Financial year 2018-

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
Impaired assets	549,175	39,233	52,427	442,237	1,083,072
	549,175	39,233	52,427	442,237	1,083,072

At 31 December 2019, "Impaired assets" presented in the table above include secured exposures amounting to €671,137 thousand (€809,689 thousand at 31 December 2018). At 31 December 2019 impaired assets under the "Up to 6 months" column include €468,686thousand relating to exposures that are non-performing for reasons other than default (€457,559 thousand at 31 December 2018).

At 31 December 2019 and 2018, past-due amounts on assets not considered impaired include totalled €98,482 thousand and €49,887 thousand, respectively. The breakdown by term of these assets is as follows:

At 31 December 2019 -

	Thousands of euros			
	Less than 1 Month	More than 1 Month, but Less than 2 Months	More than 2 Months, but Less than 3 Months	Total
Amounts past due	60,953	12,525	25,004	98,482
	60,953	12,525	25,004	98,482

At 31 December 2018 -

	Thousands of euros			
	Less than 1 Month	More than 1 Month, but Less than 2 Months	More than 2 Months, but Less than 3 Months	Total
Amounts past due	25,659	10,604	13,624	49,887
	25,659	10,604	13,624	49,887

f) *Derecognition of impaired financial assets*

Changes in 2019 and 2018 in the Bank's impaired financial assets, which have not been recognised as the probability of their recovery is considered remote, although the Bank continues its efforts to collect the amounts receivable, are as follows:

	Thousands of Euros
Financial assets for which the probability of recovery is considered remote at 1 December 2018	**3,346,325**
Additions	
Balances for which recovery during the period is considered remote (Note 9-d)	128,739
Net allowance charged to profit or loss	26,390
Other (*)	152,798
Recoveries	
Cash receipt without additional refinancing	(37,801)
Derecognition due to foreclosures	(22,310)
Derecognition due to debt remission	(42,009)
Derecognition due to statute of limitations	–
Derecognition due to sale of portfolio (**)	(48,295)
Derecognition due to other reasons (***)	(329,164)
Financial assets for which the probability of recovery is considered remote at Monday, December 31, 2018	**3,174,673**
Additions	
Balances for which recovery during the period is considered remote (Note 9-d)	111,489
Net allowance charged to profit or loss	29,539
Additions arising from business combinations	215,449
Other (*)	184,603
Recoveries	
Cash receipt without additional refinancing	(47,567)
Derecognition due to foreclosures	(7,619)
Derecognition due to debt remission	(60,742)
Derecognition due to statute of limitations	–
Derecognition due to sale of portfolio (**)	(51,328)
Derecognition due to other reasons (****)	(78,760)
Financial assets for which the probability of recovery is considered remote at 31 December 2019	**3,469,737**

(*) *The balance recognised in this item primarily reflects past-due receivables.*

(**) *The balance recognised under this line item mainly relates to the derecognition of assets arising from the sale of one loan portfolio in 2019 (one loan portfolio sold in 2018), the gain arising from which was recognised under "Gains or losses on derecognition of non-financial assets and investments, net" (see Note 38).*

(***) *The balance under this line item basically relates to the derecognition of assets arising from loans sold in 2018.*

(***) *The balance under this line item mainly relates to products considered definitively uncollectible.*

Write-offs recovered in 2019 amounted to €47,567 thousand and have been recognised under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and modification net gains or losses – Financial assets at amortised cost" in the statement of profit or loss for 2019 (€37,801 thousand in 2018).

In 2019 this item in the accompanying statement of profit or loss also includes direct allowances amounting to €29,539 thousand for loans that were considered as write-offs (€26,390 thousand in 2018).

g) *Financing of real estate construction, property development and housing purchases (business in Spain)*

At 31 December 2019, financing extended for real estate construction and property development in the resident sector amounts to €1,061 million (€878 million at 31 December 2018), of which €23 million are impaired assets (€24 million at 31 December 2018), for which impairment had been recognised. At the reporting date, total accumulated impairment amounts to €11 million (€11 million at 31 December 2018).

The figures above reflect financing extended for real estate construction and property development. Consequently, following Bank of Spain instructions, the debtor's national classification of economic activities ("CNAE") code has not been taken into account. As a result, if the debtor: (a) is a real estate company but uses the financing for a purpose other than real estate construction or property development, the loan is not included in these tables, and (b) if the company's principal activity is not real estate construction or property development but it uses the loan to finance property development, it is included in these tables.

Quantitative information on the financing extended for real estate construction and property development and the related provisions at 31 December 2019 and 2018 is as follows:

At 31 December 2019 -

	Millions of euros		
	Gross carrying amount	Excess over in rem guarantee value	Accumulated impairment
Financing of real estate construction and property development	1,061	310	11
Of which: non-performing	*23*	*7*	*8*
Memorandum Item:			
Written-off assets (*)	3,470		
Loans to customers, excluding General government and valuation adjustments (**)	35,388		
Total Assets(**)	58,971		
Impairment and provisions for exposures classified as performing (***)	83		

(*) Total write-offs of the Bank.

(**) Total operations (carrying amount).

(***) Total amount of impairment and provisions for exposures classified as performing (excluding those under special monitoring).

At 31 December 2018 -

	Millions of euros		
	Gross carrying amount	Excess over in rem guarantee value	Accumulated impairment
Financing of real estate construction and property development	878	352	11
Of which: non-performing	*24*	*8*	*11*
Memorandum Item:			
Written-off assets (*)	3,175		
Loans to customers, excluding General government and valuation adjustments (**)	28,820		
Total assets (**)	50,974		
Impairment and provisions for exposures classified as performing (***)	68		

(*) Total write-offs of the Bank.

(**) Total operations (carrying amount).

(***) Total amount of impairment and provisions for exposures classified as performing (excluding those under special monitoring).

The breakdown of financing to construction and property development (including land), by type of related guarantee, is as follows:

	Millions of euros	
	Gross carrying amount	
	31.12.19	31.12.18
Without real estate collateral	329	275
With real estate collateral	732	603
Buildings and other constructions completed		
Housing	*248*	*216*
Other	*186*	*149*
Buildings and other constructions in progress		
Housing	*211*	*173*
Other	*64*	*33*
Land		
Consolidated urban land	*22*	*31*
Other	*1*	*1*
Total	**1,061**	**878**

Loans to household for the house purchase

Quantitative information on household loans for the purchase of housing at 31 December 2019 and 2018 is as follows:

At 31 December 2019 -

	Millions of euros	
	Gross carrying amount	Of which: non-performing
Loans to household for house purchase	12,748	250
Without real estate mortgage	*365*	*17*
With real estate mortgage	*12,383*	*233*

At 31 December 2018 -

	Millions of euros	
	Gross carrying amount	Of which: non-performing
Loans to household for house purchase	11,311	291
Without real estate mortgage	*237*	*2*
With real estate mortgage	*11,074*	*289*

The breakdown at 31 December 2019 and 2018 of mortgage loans extended to households for the purchase of housing, in terms of the gross carrying amount as a percentage of the latest available appraisal value (*loan to value (LTV)*), is as follows:

At 31 December 2019 -

	Millions of euros				
	Gross carrying amount over the latest available appraisal (*LTV*)				
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
Gross carrying amount	2,634	3,730	3,907	1,325	787
Of which: non-performing	25	33	54	40	81

At 31 December 2018 -

	Millions of euros				
	Gross carrying amount over the latest available appraisal (*LTV*)				
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
Gross carrying amount	2,308	3,453	3,552	1,162	599
Of which: non-performing	31	47	66	50	95

Note 11 includes details of assets acquired and foreclosed, based on the purpose of the loan or credit initially extended, providing a breakdown of the gross value and the provision recognised at 31 December 2019 and 2018.

h) *Refinancing and restructuring (transactions with forbearance measures)*

The Bank's refinancing and restructuring policy is defined in accordance with the specifications laid down in Bank of Spain regulation.

In particular:

Unless there is evidence to the contrary, transactions shall be deemed to be a restructuring or refinancing (transactions with forbearance measures) in the following circumstances:

a. When some or all of the payments of the modified transaction have been past due for more than 30 days (without being classified as non-performing) at least once in the three months preceding its modification, or would be past due for more than 30 days without said modification.

b. When, simultaneously or nearly simultaneously with the granting of additional financing by the entity, the borrower has made payments of interest on another transaction with the entity, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.

c. When the entity approves the use of implicit restructuring or refinancing clauses (forbearance measures) in relation to borrowers with outstanding amounts 30 days past-due or more than 30 days past due if such clauses have not been exercised.

On the date of the refinancing or restructuring operation, the refinancing, refinanced or restructured operations (transactions with forbearance measures) classified as performing exposures or as performing exposures under special monitoring, shall be analysed to determine whether they should be reclassified to non-performing. This analysis shall take into account the general criteria determining the classification of transactions as non-performing and the specific criteria set out below.

Unless there is evidence to the contrary, refinancing, refinanced or restructured transactions (transactions with forbearance measures) meeting any of the following criteria shall be reclassified as non-performing:

a. They are supported by inadequate payment plans. The situations in which it will be considered that there is no adequate payment plan shall include, inter alia, the repeated failure to comply with the payment plan, its modification to avoid breaches, or its resting on expectations that are not supported by macroeconomic forecasts.

b. They include contract terms that extend the time for the regular repayment instalments on the transaction, such as grace periods of more than two years for the repayment of the principal.

c. They include amounts derecognised as being irrecoverable that exceed the allowances and provisions resulting from applying the percentages established in Bank of Spain Circular 4/2017.

The refinancing or restructuring of a transaction (transactions with forbearance measures) that was previously classified as non-performing shall not lead to its reclassification in the category of performing exposures under special monitoring or of performing exposures.

For this reclassification to performing exposures under special monitoring to take place, all the general criteria for classifying transactions in this category and the specific criteria set out below have to be met:

a. The entity determining, upon a comprehensive review of the borrower's assets and finances, that the borrower is not likely to encounter financial difficulties.

b. That a year has elapsed since the date of the refinancing or restructuring operation (forbearance measures).

c. That the borrower has paid the accrued principal and interest instalments, reducing the renegotiated principal, since the later of the date of entry into the restructuring or refinancing transaction (forbearance measures) or the date of reclassification of the transaction as non-performing. Consequently, the transaction may not present past-due amounts. Additionally:

i) the borrower must have settled, by means of regular payments, an amount equivalent to all the amounts, including principal and interest, past-due on the date of the restructuring or refinancing transaction (with forbearance measures), or which were derecognised as a result of it;

ii) or other objective criteria that demonstrate the borrower's ability to pay must have been verified, if this is more appropriate based on the characteristics of the transactions.

Therefore, the existence of contract terms that extend the repayment period, such as grace periods for the principal, will mean that the transaction remains identified as a non-performing exposure until the aforementioned criteria have been met.

d. The borrower does not have any other transactions with amounts more than 90 days past-due at the date the refinancing, refinanced or restructured transaction (transactions with forbearance measures) was reclassified to the category of performing exposures under special monitoring.

Refinancing, refinanced or restructured transactions (transactions with forbearance measures) that are classified within the category of performing exposures under special monitoring – owing to their classification as non-performing not being applicable on the date of refinancing or restructuring or owing to their reclassification from the category of non-performing exposures – shall continue to be identified as under special monitoring during a probation period until all the following requirements are met:

a. That, following an exhaustive review of the borrower’s financial situation, it has been concluded that it is not foreseeable that the borrower will encounter financial difficulties and that, it is therefore highly probable that it will be able to comply with its obligations to the entity in the due time and form. This analysis of the recoverability in time and form of the exposure shall be based on objective evidence, such as:

i) The existence of a payments plan attuned to the borrower’s recurring cash flow.

ii) The addition of new effective guarantors or new effective collateral.

b. That a minimum of two years has elapsed since the later of the date of entry into the restructuring or refinancing transaction (with forbearance measures) or the date of reclassification from the category of non-performing exposures.

c. That the borrower has paid the accrued instalments of principal and interest since the later of the date of entry into the restructuring or refinancing transaction (with forbearance measures) or the date of reclassification from the category of non-performing. Additionally:

i) the borrower must have settled, by means of regular payments, an amount equivalent to all the amounts, including principal and interest, past-due on the date of the restructuring or refinancing transaction (with forbearance measures), or which were derecognised as a result of it;

ii) or other objective criteria that demonstrate the borrower's ability to pay must have been verified, if this is more appropriate based on the characteristics of the transactions.

Therefore, the existence of contract terms that extend the repayment period, such as grace periods for the principal, will mean that the transaction remains identified as a performing exposure under special monitoring until the aforementioned criteria have been met.

d. That the borrower does not have any other transactions with amounts more than 30 days past-due at the end of the probation period.

Accordingly, if all the foregoing requirements are met, the transactions shall cease to be identified in the financial statements as refinancing, refinanced or restructured transactions (transactions with forbearance measures).

During the probation period described, a new refinancing or restructuring of refinancing, refinanced or restructured transactions (transactions with forbearance measures) or the existence of amounts more than 30 days past-due shall entail the reclassification of these transactions on probation to the category of non-performing for reasons other than arrears, provided they were classified as non-performing before the commencement of the probation period.

Refinancing and restructuring decisions must be made at an appropriate level of the organisation, other than the level which originally granted the transaction, or, if on the same level, reviewed by a higher decision-making level or body. Endeavours will thus be made to ensure that refinancing and restructuring transactions (with forbearance measures) are approved by a committee independent to the one that initially granted the transaction, and approval of such transactions by branch committees will not be permitted.

For exposures in excess of a certain threshold, the refinanced risks and the estimate of their impairment are reviewed through an individual analysis that considers all available information on the customer, the type of transactions and the guarantees. At 31 December 2019, the applicable threshold was €500 thousand for transactions classified as "Under special monitoring" and "Non-performing" (at 31 December 2018 the threshold for reviewing transactions under special monitoring and non-performing eligible for individual analysis was €1 million). The findings of the analysis are documented on a case-by-case basis in a monitoring file that is constantly updated and which provides an estimate of impairment that is taken into consideration when recognising the required provision. Exposures for an amount of less than the above-mentioned thresholds are also reviewed on an individual basis through automatic procedures that include the application of scoring systems, the inputs for which are the reiteration of certain risk indicators and the guarantees associated with transactions of customers experiencing difficulties. This process produces the valuation adjustment applicable to each borrower and to each contract, on the basis of which the required provision is determined and recognised.

The risk policies approved by the Bank require that whenever credit operations are renegotiated as a result of the borrower having financial difficulties, the interest rates applied to the transaction must either be maintained or increased. Otherwise, the Bank recognises the pertinent provision for the loss arising from reduction in the interest rate with respect to the original rate.

Lastly, with regard to the treatment of interest payable that has not been recognised as it pertains to transactions that were non-performing at the date of refinancing (forbearance measures), the interest accrued before and after the refinancing remains unrecognised.

The decisions taken are regularly reviewed to determine compliance with the forbearance policies.

At 31 December 2019, the outstanding balances of refinancing and restructuring operations (transactions with forbearance measures) amount to €1,298,107 thousand (€1,514,006 thousand at 31 December 2018), of which €609,594 thousand relate to impaired assets (€816,935 at 31 December 2018), for which impairment losses had been recognised.

Total specific allowances and provisions for impairment of those assets amount to €284,891 thousand and €395,488 thousand at 31 December 2019 and 2018, respectively.

Quantitative information by counterparty and purpose of the transaction at 31 December 2019 and 2018, in thousands of Euros, is as follows:

At 31 December 2019 -

	Total						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	–	–	–	–	–	–	–
General government	5	273	19	1,955	567	–	(588)
Other financial companies and individual entrepreneurs (financial business)	6	91	4	277	240	1	(74)
Non-financial companies and individual entrepreneurs (non-financial business)	1,989	383,848	1,500	310,125	146,148	40,612	(194,779)
Of which: financing of real estate construction and property development (including land)	*78*	*2,082*	*97*	*15,335*	*7,876*	*2,417*	*(5,906)*
Rest of households	3,303	81,054	5,857	520,484	413,973	6,548	(89,450)
Total	5,303	465,266	7,380	832,841	560,928	47,161	(284,891)
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–	–

At 31 December 2019 -

	Of which: non-performing						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	–	–	–	–	–	–	–
General government	2	181	13	1,954	567	–	(588)
Other financial companies and individual entrepreneurs	3	39	4	277	240	1	(64)
Non-financial companies and individual entrepreneurs	819	119,286	710	169,838	59,176	18,130	(150,094)
Of which: financing of real estate construction and property development (including land)	*61*	*1,571*	*58*	*12,129*	*5,917*	*1,396*	*(5,713)*
Rest of households	1,575	50,466	2,983	267,553	193,454	3,431	(76,320)
Total	**2,399**	**169,972**	**3,710**	**439,622**	**253,437**	**21,562**	**(227,066)**
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–	–

At 31 December 2018 -

	Total						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	–	–	–	–	–	–	–
General government	9	335	19	6	6	–	(117)
Other financial companies and individual entrepreneurs (financial business)	9	1,869	9	829	764	1	(1,816)
Non-financial companies and individual entrepreneurs (non-financial business)	2,031	404,886	1,835	373,535	174,698	45,392	(265,279)
Of which: financing of real estate construction and property development (including land)	*101*	*3,141*	*143*	*18,247*	*8,724*	*2,355*	*(8,409)*
Rest of households	3,223	38,204	7,555	694,342	509,400	7,549	(128,276)
Total	5,272	445,294	9,418	1,068,712	684,868	52,942	(395,488)
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–	–

At 31 December 2018 -

	Of which: non-performing						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	–	–	–	–	–	–	–
General government	2	212	12	5	5	–	(117)
Other financial companies and individual entrepreneurs	6	1,833	6	480	424	1	(1,808)
Non-financial companies and individual entrepreneurs	1,031	169,545	1,005	221,556	76,549	22,221	(229,399)
Of which: financing of real estate construction and property development (including land)	*61*	*2,770*	*96*	*14,095*	*5,406*	*1,903*	*(8,161)*
Rest of households	1,541	23,126	4,317	400,178	264,129	4,182	(115,355)
Total	**2,580**	**194,716**	**5,340**	**622,219**	**341,107**	**26,404**	**(346,679)**
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–	–

i) Distribution of exposure from loans and advances to customers by activity

Details of the distribution of loans and advances to customers by activity, broken down by tranche based on the carrying amount of the financing as a percentage of the latest appraisal value or the value of available collateral *(loan to value (LTV))* at 31 December 2019 and 2018, are as follows:

At 31 December 2019 -

	Thousands of euros							
				Secured loans Carrying amount over the latest available appraisal (*LTV*)				
	(*) Total	Of which: secured by real estate	Of which: secured by other collateral	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
General government	2,959,162	2,867	133	1,242	118	1,476	1	163
Other financial companies and individual entrepreneurs	1,307,818	131,344	348,420	26,385	30,523	10,897	19,822	392,137
Non-financial companies and individual entrepreneurs	15,473,945	3,376,276	2,395,603	1,102,053	1,067,183	890,716	1,106,932	1,604,995
Real estate construction and property development	*1,104,100*	*783,420*	*59,167*	*218,218*	*342,701*	*136,450*	*38,002*	*107,216*
Civil works construction	*285,175*	*46,885*	*32,403*	*2,007*	*12,306*	*6,970*	*33,238*	*24,767*
Rest of purposes:	*14,084,670*	*2,545,971*	*2,304,033*	*881,828*	*712,176*	*747,296*	*1,035,692*	*1,473,012*
Large corporations	*6,857,923*	*508,748*	*1,654,352*	*186,088*	*19,737*	*184,334*	*855,931*	*917,010*
SMEs and individual entrepreneurs	*7,226,747*	*2,037,223*	*649,681*	*695,740*	*692,439*	*562,962*	*179,761*	*556,002*
Rest of households and non-profit institutions serving households	18,141,561	15,447,265	792,055	3,441,851	4,843,613	5,034,668	1,970,395	948,793
Housing	*14,743,428*	*14,300,026*	*11,387*	*3,104,247*	*4,447,049*	*4,546,674*	*1,462,044*	*751,399*
Consumer	*1,142,128*	*195,054*	*75,036*	*91,187*	*67,081*	*59,046*	*17,052*	*35,724*
Other purposes	*2,256,005*	*952,185*	*705,632*	*246,417*	*329,483*	*428,948*	*491,299*	*161,670*
SUBTOTAL	37,882,486	18,957,752	3,536,211	4,571,531	5,941,437	5,937,757	3,097,150	2,946,088
Less: Impairment losses on assets not assigned to specific operations	–							
TOTAL	37,882,486							
Memorandum Item Refinancing, refinanced and restructured operations	1,013,216	651,418	17,937	117,010	125,495	139,558	90,057	197,235

(*) Net of valuation adjustments

At 31 December 2018 -

	Thousands of euros							
				Secured loans Carrying amount over the latest available appraisal (*LTV*)				
	(*) Total	Of which: secured by real estate	Of which: secured by other collateral	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
General government	2,898,385	273	81	61	163	17	2	111
Other financial companies and individual entrepreneurs	849,982	13,351	257,046	129,558	1,296	6,850	5,343	127,350
Non-financial companies and individual entrepreneurs	12,988,046	3,040,568	2,064,512	729,618	946,166	710,139	1,278,387	1,440,770
Real estate construction and property development	*926,390*	*656,221*	*29,539*	*188,077*	*223,614*	*106,235*	*72,446*	*95,388*
Civil works construction	*52,591*	*18,800*	*33,791*	*22,466*	*10,123*	*5,151*	*2,343*	*12,508*
Rest of purposes:	*12,009,065*	*2,365,547*	*2,001,182*	*519,075*	*712,429*	*598,753*	*1,203,598*	*1,332,874*
Large corporations	*5,736,337*	*365,531*	*1,444,957*	*66,594*	*38,030*	*127,878*	*888,413*	*689,573*
SMEs and individual entrepreneurs	*6,272,728*	*2,000,016*	*556,225*	*452,481*	*674,399*	*470,875*	*315,185*	*643,301*
Rest of households and non-profit institutions serving households	14,246,085	12,643,764	23,541	2,849,271	3,895,539	3,895,424	1,284,660	742,411
Housing	*11,962,005*	*11,592,271*	*8,820*	*2,551,340*	*3,620,161*	*3,673,336*	*1,168,716*	*587,538*
Consumer	*919,896*	*191,955*	*5,236*	*84,542*	*59,774*	*29,932*	*10,870*	*12,073*
Other purposes	*1,364,184*	*859,538*	*9,485*	*213,389*	*215,604*	*192,156*	*105,074*	*142,800*
SUBTOTAL	30,982,498	15,697,956	2,345,180	3,708,508	4,843,164	4,612,430	2,568,392	2,310,642
Less: Impairment losses on assets not assigned to specific operations	–							
TOTAL	30,982,498							
Memorandum Item Refinancing, refinanced and restructured operations	1,118,518	796,159	17,291	111,106	159,672	194,633	112,752	235,287

(*) Net of valuation adjustments

10. Derivatives

10.1. Derivatives – hedge accounting (assets and liabilities)

10.1.1. Fair value hedges

At 31 December 2019 and 2018, the breakdown, by type of product, of the fair value and notional amount of the derivatives designated as hedging instruments in fair value hedge transactions is as follows:

At 31 December 2019 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Interest rate swaps (IRS)	29,399	2,493,607	179,332	4,540,092
Forward sale contracts	4,660	713,977	121	245,265
	34,059	**3,207,584**	**179,453**	**4,785,357**

At 31 December 2018 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Interest rate swaps (IRS)	10,074	2,199,832	101,924	4,791,561
Forward sale contracts	3,127	471,655	3,900	829,107
	13,201	**2,671,487**	**105,824**	**5,620,668**

The notional amount of the contracts arranged does not represent the actual risk assumed by the Bank with regard to these instruments.

At 31 December 2019 interest rate swaps include swaps with a notional amount of €1,263,900 thousand which have been designated as fair value hedges for the interest rate risk on fixed-income securities, which were issued at fixed rates and had been classified as "Financial assets at fair value through other comprehensive income" at the date of issue (€4,599,940 thousand at 31 December 2018).

At 31 December 2019 transactions designated as fair value hedges for the interest rate risk on fixed-rate deposits from credit institutions totalled €3,000,000 thousand (€2,000,000 thousand at 31 December 2018).

10.1.2. Cash flow hedges

At 31 December 2019 and 2018, the breakdown, by type of product, of the fair value and the notional amount of the derivatives designated as hedging instruments in cash flow hedge transactions, is as follows:

At 31 December 2019 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Other interest rate transactions:				
Interest rate swaps (IRS)	19,028	599,140	342	141,875
	19,028	**599,140**	**342**	**141,875**

At 31 December 2018 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Other interest rate transactions:				
Interest rate swaps (IRS)	17,886	755,140	29,474	1,300,000
	17,886	**755,140**	**29,474**	**1,300,000**

The notional amount of the contracts arranged does not represent the actual risk assumed by the Bank with regard to these instruments.

Cash flow hedging is used to reduce the variability of cash flows (attributable to the interest rate) from hedged items (marketable and non-marketable securities, fixed-income securities and specially mortgage portfolio). These hedges convert the floating interest rate on assets/liabilities to a fixed rate of interest, using interest rate derivatives.

At 31 December 2019, the Bank had no interest rate swaps designated as cash flow hedges for the interest rate risk on the mortgage portfolio (€1,406,000 thousand notional amount at 31 December 2018).

The breakdown of the periods, as from 31 December 2019 and 2018, in which the amounts recognised in equity under "Accumulated other comprehensive income – Hedging derivatives. Cash flow hedges reserve (effective portion)" are expected to revert to future profit or loss, are as follows:

At 31 December 2019 -

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Credit balances (gains)	13,591	27,723	28,404	43,537
Debit balances (losses)	(12,247)	(24,987)	(25,567)	(38,315)
Total	1,344	2,736	2,837	5,222

At 31 December 2018 -

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Credit balances (gains)	22,615	41,682	40,574	92,630
Debit balances (losses)	(13,495)	(27,043)	(41,275)	(134,388)
Total	9,120	14,639	(701)	(41,758)

Details of the estimated amount of future payments and receipts hedged through cash flow hedges, broken down by expected term of their collection or payment as from 31 December 2019 and 2018, are as follows:

At 31 December 2019 -

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Receipts	13,383	27,405	27,839	43,479
Payments	(12,037)	(24,648)	(25,006)	(38,277)
Total	1,346	2,757	2,833	5,202

At 31 December 2018 -

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Receipts	22,585	41,555	40,692	103,305
Payments	(11,923)	(26,961)	(41,404)	(142,930)
Total	10,662	14,594	(712)	(39,625)

At 31 December 2019 and 2018, all of the contracts arranged by the Bank had been entered into with different creditworthy counterparties.

10.1.3. Hedge effectiveness

The Bank considers a hedge to be highly effective when:

i) At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Such an expectation can be verified by comparing past changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk with past changes in the fair value or cash flows of the hedged item, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged item and those of the hedging instrument.

ii) The actual results of the hedge are within a range of 80-125 per cent.

At 31 December 2019 and 2018, the breakdown, by type of hedged item, of the fair value and notional amount of derivatives designated as hedging instruments, is as follows:

At 31 December 2019 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Credit institutions	640	1,000,000	11,041	2,000,000
Loans and advances to customers	24	4,607	113,054	1,457,066
Deposits from customers	–	–	4,144	400,000
Debt securities issued	16,240	750,000	–	–
Debt securities	36,183	1,338,140	44,127	632,493
Subordinated liabilities	–	–	7,429	300,000
	53,087	**3,092,747**	**179,795**	**4,789,559**

At 31 December 2018 -

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Credit institutions	8,137	2,000,000	–	–
Loans and advances to customers	3,053	355,831	47,253	2,040,761
Deposits from customers	–	–	1,557	50,000
Debt securities issued	–	–	–	–
Debt securities	19,897	1,070,796	86,488	4,829,907
	31,087	**3,426,627**	**135,298**	**6,920,668**

In 2019 and 2018, the breakdown, by type of hedged item, gains or losses on derivatives designated as hedging instruments, is as follows:

Financial year 2019

	Thousands of euros				
	Net interest income		Results Financial Transactions		
	Correction of income (Note 28)	Correction of costs (Note 29)	Residual Value of hedged item	Residual Value of hedging instruments	Total Ineffective ness (Note 33)
Credit institutions	–	(4,343)	11,654	(11,090)	564
Loans and advances to customers	(10,917)	–	103,315	(99,759)	3,556
Deposits from customers	–	(5,793)	–	1,959	1,959
Debt securities issued	–	(2,811)	–	–	–
Debt securities	(15,862)	–	(57,614)	49,333	(8,281)
Subordinated liabilities	–	13	–	–	–
	(26,779)	**(12,934)**	**57,355**	**(59,557)**	**(2,202)**

Financial year 2018-

	Thousands of euros				
	Net interest income		Results Financial Transactions		
	Correction of income (Note 28)	Correction of costs (Note 29)	Residual Value of hedged item	Residual Value of hedging instruments	Total Ineffective ness (Note 33)
Credit institutions	–	(5,704)	(5,694)	4,258	(1,436)
Loans and advances to customers	(28)	–	18,865	(13,618)	5,247
Deposits from customers	–	(7,839)	5,816	(6,061)	(245)
Debt securities issued	–	(7,395)	–	–	–
Debt securities	(33,696)	–	60,938	(72,083)	(11,145)
	(33,724)	**(20,938)**	**79,925**	**(87,504)**	**(7,579)**

10.2. Derivatives held for trading (assets and liabilities)

At 31 December 2019 and 2018, the breakdown, by inherent risk, of the fair value of the derivatives held for trading arranged by the Bank, is as follows:

	Thousands of euros			
	2019		2018	
	Net Balance	Net Balance	Net Balance	Credit balance
Interest rate risk	116,098	109,693	95,186	67,282
Currency risk	214	4,508	433	1,339
Market risk	1,299	2,343	3,597	4,095
Commodities risk	63	–	–	–
	117,674	**116,544**	**99,216**	**72,716**

At 31 December 2019 and 2018, all the contracts arranged by the Bank had been entered into with different creditworthy counterparties.

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

At 31 December 2019, the Bank has recognised under this item in the statement of financial position €130,443 thousand (€133,321 at 31 December 2018) relating to fixed assets from foreclosures that the Bank intends to dispose of and that are not part of the Bank’s operating activities, and to investment property that the Bank expect to realise through sales.

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

	Thousands of euros	
	2019	2018
Assets foreclosed or received in payment of debt	64,393	56,717
Investment property and tangible assets for own use	66,050	76,604
	130,443	**133,321**

Changes registered under this item in 2019 and 2018 are as follows:

Financial year 2019

	Thousands of euros					
	Opening balance at 31.12.2018	Additions	Additions arising from business combinations and transactions with group companies	Derecognitions	Transfers	Net Balance at 31.12.2019
Cost:						
Assets foreclosed or received in payment of debt	67,194	4,868	13,098	(7,812)	(1,426)	75,922
Investment property and tangible assets for own use	76,604	101	(12,312)	(3,372)	5,029	66,050
	143,798	**4,969**	**786**	**(11,184)**	**3,603**	**141,972**
Impairment:						
Assets foreclosed or received in payment of debt	(10,477)	(2,663)	(568)	2,179	–	(11,529)
Investment property and tangible assets for own use	–	–	–	–	–	–
	(10,477)	**(2,663)**	**(568)**	**2,179**	**–**	**(11,529)**
Net total	**133,321**	**2,306**	**218**	**(9,005)**	**3,603**	**130,443**

Financial year 2018-

	Thousands of euros					
	Opening balance at 31.12.2017	Additions	Impact from application of Circular 4/2017	Derecognitions	Transfers	Net Balance at 31.12.2018
Cost:						
Assets foreclosed or received in payment of debt	64,910	22,934	–	(18,338)	(2,312)	67,194
Investment property and tangible assets for own use	105,197	165	–	(2,980)	(25,778)	76,604
	170,107	**23,099**	**–**	**(21,318)**	**(28,090)**	**143,798**
Impairment:						
Assets foreclosed or received in payment of debt	(11,729)	(217)	469	1,000	–	(10,477)
Investment property and tangible assets for own use	–	–	–	–	–	–
	(11,729)	**(217)**	**469**	**1,000**	**–**	**(10,477)**
Net total	**158,378**	**22,882**	**469**	**(20,318)**	**(28,090)**	**133,321**

The Bank has taken out insurance policies to cover the potential risk of damage to its investment property and foreclosed assets received in payment of debts. The Board of Directors of the Bank believes that the insurance coverage arranged is adequate, considering the locations of its investment properties and the foreclosed assets received in payment of debts.

a) Assets foreclosed or received in payment of debt

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

	Thousands of euros	
	2019	2018
Residential assets	37,049	36,577
Industrial assets	5,735	4,015
Other assets	33,138	26,602
Gross total	**75,922**	**67,194**
Less - Impairment losses	(11,529)	(10,477)
Net total	**64,393**	**56,717**

In 2019, the Bank completed several sales of assets recognised under this item in the statement of financial position, achieving net gains of €234 thousand (€8,077 thousand net gains in 2018), which were recognised under "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the accompanying statements of profit or loss for 2019 and 2018. This item also includes impairment allowances for non-current assets held for sale amounting to €2,430 thousand (€217 thousand in impairment allowances in 2018). At 31 December 2019 and 2018 there were no outstanding amounts relating to transactions carried out during these years.

The fair value of non-current assets and disposal groups classified as held for sale has been determined as follows:

- In the case of assets for which there is an up-to-date appraisal carried out by an appraisal company authorised by the Bank of Spain, the fair value was taken to be the value obtained from the appraisal conducted in accordance with Ministerial Order ECO/805/2003. The main appraisal companies involved in the valuation of these assets were Sociedad de Tasación, S.A.; Global Valuation, S.A.U.; Tasaciones Hipotecarias, S.A.; Eurovaloraciones, S.A.; Tasaciones Inmobiliarias, S.A., and GESVALT Sociedad de Tasación, S.A.

- In the case of assets that are not significant and for which there is no up-to-date appraisal carried out by an appraisal company authorised by the Bank of Spain, the fair value presented was obtained from estimates made by the Bank, taking into consideration data from the mortgage market with regard to the price trends of tangible assets with similar characteristics to those of the Bank.

At 31 December 2019 and 2018, the breakdown of the carrying amount and fair value of this type of assets is as follows:

At 31 December 2019 -

	Thousands of euros		Age of the Appraisal		
	Gross carrying amount	Appraisal Value	Under 12 months	Between 12 and 24 months	Over 24 months
Foreclosed assets	75,922	120,872	73,110	31,787	15,975

At 31 December 2018 -

	Thousands of euros		Age of the Appraisal		
	Gross carrying amount	Appraisal Value	Under 12 months	Between 12 and 24 months	Over 24 months
Foreclosed assets	67,194	127,794	107,331	11,923	8,540

Below is the order of permanence of the main assets from foreclosures or recoveries recognised in the statement of financial position at 31 December 2019 and 2018:

	Thousands of euros	
	31.12.19	31.12.18
Up to one year	7,339	16,218
Between 1 and 3 Years	24,738	13,031
Between 3 and 5 years	18,950	18,877
More than 5 years	24,895	19,068
Total	**75,922**	**67,194**

At 31 December 2019 and 2018, the breakdown of the origin of assets acquired and foreclosed, based on the purpose of the loan or credit initially granted, is as follows:

At 31 December 2019 -

	Thousands of euros	
	Gross carrying amount (*)	Accumulated impairment
Real estate assets from financing of real estate construction and property development		
Buildings and other constructions completed	11,707	3,016
Housing	*10,845*	*2,508*
Other	*862*	*508*
Buildings and other constructions in progress	8,192	337
Housing	*7,574*	–
Other	*618*	*337*
Land	23,724	669
Consolidated urban land	*20,198*	*379*
Rest of land	*3,526*	*290*
Real estate assets from mortgage loans to households for house purchase	26,219	6,596
Rest of assets foreclosed or received in payment of debt	6,080	911
Equity instruments foreclosed or received in payment of debt	–	–
Equity instruments of entities holding assets foreclosed or received in payment of debt	–	–
Financing to companies holding assets foreclosed or received in payment of debt	–	–
	75,922	**11,529**

(*) Amount before deducting, where applicable, any accumulated impairment.

At 31 December 2018 -

	Thousands of euros	
	Gross carrying amount (*)	Accumulated impairment
Real estate assets from financing of real estate construction and property development		
Buildings and other constructions completed	10,957	2,520
Housing	*10,437*	*2,493*
Other	*520*	*27*
Buildings and other constructions in progress	3,166	337
Housing	*2,543*	*–*
Other	*623*	*337*
Land	23,436	450
Consolidated urban land	*19,635*	*205*
Rest of land	*3,801*	*245*
Real estate assets from mortgage loans to households for house purchase	24,866	6,510
Rest of assets foreclosed or received in payment of debt	4,769	660
Equity instruments foreclosed or received in payment of debt	–	–
Equity instruments of entities holding assets foreclosed or received in payment of debt	–	–
Financing to companies holding assets foreclosed or received in payment of debt	–	–
	67,194	10,477

(*) Amount before deducting, where applicable, any accumulated impairment.

12. Investments in subsidiaries, joint ventures and associates

a) Breakdown

This item includes equity instruments issued by subsidiaries, joint ventures and associates held by the Bank and that have not been recognised under "Non-current assets and disposal group classified as held for sale".

The breakdown of the Bank's most relevant investments in subsidiaries, joint ventures and associates at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Subsidiaries:		
ABANCA Corporación División Inmobiliaria, S.L.U.	3,607,608	3,607,608
ABANCA Corporación Industrial y Empresarial, S.L.U.	2,162,490	2,162,490
Su Inmobiliária Unipessoal LDA.	–	2,076
Arboretum - Investimentos Inmobiliarios, S.A.	–	13,620
Complejo Residencial Marina Atlántica, S.L.	18,359	18,359
Instituto de Educación Superior Intercontinental de la Empresa, S.L.	–	8
Sogevinus, S.G.P.S., S.A.	75,450	68,000
Natur Spa Allariz, S.A.	1,961	1,961
Sentir Común México, S.A. DE C.V. SOFOM	73	68
ABANCA Servicios Financieros, E.F.C. S.A.	38,885	38,885
Laborvantage - Investimentos Inmobiliários e Turísticos, LDA	19,838	19,838
Valuation adjustments – Impairment losses	(3,891,974)	(3,963,372)
	2,032,690	1,969,541
Associates:		
Cidade Tecnolóxica de Vigo, S.A.	1,870	1,870
Cidade Universitaria, S.A.	3,301	3,301
Obenque, S.A.	4,200	4,200
Parque Tecnolóxico de Galicia	898	898
Raminova Inversiones, S.L.	33,972	33,972
Imantia Capital, SGIIC. S.A.	1,566	1,566
Terminal de Graneles Agroalimentarios de Santander, S.A.	14,228	14,228
Nueva Pescanova, S.L.	91,744	64,817
Valuation adjustments – Impairment losses	(55,367)	(55,367)
	96,412	69,485

All the instruments included under this item in the statement of financial position at 31 December 2019 and 2018 are expressed in Euro and none of the above mentioned companies is listed on secondary markets.

Appendix I shows the main investees, including interest percentages and other relevant information on these investees.

b) *Acquisitions, disposals and transfers*

Movement in this item during 2019 and 2018, excluding impairment losses, is as follows:

	Thousands of Euros
Balance at Monday, January 1, 2018	**5,992,880**
Purchases and increases	39,543
Disposals	–
Reductions	–
Transfer from equity instruments	25,342
2018 Closing balance	**6,057,765**
Purchases and increases	34,377
Disposals	(8)
Reductions	(15,691)
Transfer from equity instruments	–
Balance at 31 December 2019	**6,076,443**

Financial year 2019

Particularly noteworthy among purchases in 2019 is the acquisition of additional interests in our associate Nueva Pescanova, S.L., as a result of which at 31 December 2019 the Group interest stands at 40.66%.

Additionally, in 2019, the following companies owned by ABANCA Corporación Bancaria, S.A. had been liquidated: Arboretum, S.A., Su Inmobiliaria Unipessoal LDA. e IESIDE, S.L.

Financial year 2018-

In 2018, purchases and transfers mainly relate to the purchase of an additional ownership interest in Nueva Pescanova, S.L., taking the investment in this company to 30.81% of share capital.

In 2018 ABANCA Corporación Industrial y Empresarial, S.L.U. paid an interim dividend for 2018 amounting to €248,000 thousand and distributed €431,687 thousand from unrestricted reserves (see Note 30).

Below is a summary of movements registered in the balance of "Impairment losses" on these assets in 2019 and 2018:

	Thousands of euros		
	Associate entities	Associate Entities	Total
Balance at 1 January 2018	**3,469,869**	**55,367**	**3,525,236**
Allowance charged to profit or loss for the period	471,687	–	471,687
Transfers	–	–	–
Transfer of allowances from loans and receivables (Note 9-d)	2,525	–	2,525
Other changes	21,367	–	21,367
Applications on disposal	–	–	–
Applications on reduction	–	–	–
Reversals	(2,076)	–	(2,076)
Balance at 31 December 2018	**3,963,372**	**55,367**	**4,018,739**
Allowance charged to profit or loss for the period	72	–	72
Transfers	–	–	–
Transfer of allowances from loans and receivables (Note 9-d)	911	–	911
Other changes	12,919	–	12,919
Applications on disposal	(5,300)	–	(5,300)
Applications on reduction	–	–	–
Reversals	(80,000)	–	(80,000)
Balance at 31 December 2019	**3,891,974**	**55,367**	**3,947,341**

At 31 December 2019, the balance under "Allowance charged to profit or loss for the period" entirely related to the allowance for the impairment on the investment in Sentir Común México, amounting to €72 thousand (at 31 December 2018, the balance entirely related to the allowance for impairment of the investment in ABANCA Corporación Industrial y Empresarial, S.L.U., amounting to €471,687 thousand).

At 31 December 2019, the balance under "Reversals" entirely related to the reversal of impairment on the investment in ABANCA Corporación Industrial y Empresarial, S.L.U. (at 31 December 2018, the balance under "Reversals" entirely related to the reversal of impairment on the investment in SU-Inmobiliaria, Uniperssoal, LDA).

The balance of €911 thousand under "Transfer of allowances from loans and receivables" relates to the valuation adjustment recognised on the investment in ABANCA Corporación, División Inmobiliaria, S.L.U. associated to the foreclosure of real estate assets recovered through the enforcement of mortgage collaterals for financial assets recognised as "Impairment losses" (see Note 9-d) that were transferred by the Bank to that company by way of assignment of rights awarded in foreclosure auctions (€2,525 thousand at 31 December 2018).

At 31 December 2019, the balance under "Other changes" include €12,919 thousand relating to the valuation adjustment recognised on the investment in ABANCA Corporación, División Inmobiliaria, S.L.U. associated to the foreclosure of real estate assets recovered through the enforcement of mortgage collaterals for financial assets recognised as "Derecognised impaired financial assets" that were transferred by the Bank to that company by way of assignment of rights awarded in foreclosure auctions (€21,367 thousand at 31 December 2018).

13. Tangible assets

At 31 December 2019 and 2018, the breakdown of the Bank’s tangible assets is as follows:

	Thousands of euros	
	2019	2018
Tangible assets		
Fixed assets	909,850	813,690
For own use	909,607	813,690
Leased out under operating leases	243	–
Investment property	214,210	215,417
Net total	**1,124,060**	**1,029,107**

At 31 December 2019 and 2018 the net balance in the foregoing table includes €25,717 thousand and €6,696 thousand, respectively, relating to items of property, plant and equipment owned by Bank's branches located abroad.

At 31 December 2019, the cost and accumulated depreciation of fully depreciated tangible assets for own use amounted to €271,526 thousand (€238,728 thousand at 31 December 2018). At 31 December 2019 investment property with a cost of €476 thousand was fully depreciated (€476 thousand at 31 December 2018).

Rental income from investment property owned by the Bank totalled €9,651 thousand in 2019 (€8,837 thousand in 2018). Operating expenses arising therefrom in 2019 amounted to €2,500 thousand (€2,529 thousand in 2018) (see Notes 34 and 37).

The Bank’s policiy requires that insurance policies be purchased to cover the potential risk of damage to its tangible assets e investment property.

In 2019 and 2018, the breakdown of, and changes according to the nature of the line items presented under this item are as follows:

Financial year 2019

	Thousands of euros					
	Opening balance at 31.12.2018	Additions	Additions arising from business combinations and transactions with group companies	Derecognitions	Transfers	Net Balance at 31.12.2019
Cost:						
For own use:						
Computer hardware and installations	108,496	24,751	19,489	(1,112)	1,327	152,951
Furniture, motor vehicles and other installations	530,041	27,995	18,072	(4,876)	10,091	581,323
Buildings	712,008	6,335	14,226	(9,762)	(20,098)	702,709
Work in progress	94	2,324	–	–	(1,790)	628
Right-of-use assets	–	39,789	50,653	–	–	90,442
Investment property	292,213	630	1,939	(4,988)	3,702	293,496
Leased out under operating leases	–	243	–	–	–	243
	1,642,852	**102,067**	**104,379**	**(20,738)**	**(6,768)**	**1,821,792**
Accumulated amortisation:						
For own use:						
Computer hardware and installations	(52,053)	(11,013)	(17,569)	758	(13)	(79,890)
Furniture, motor vehicles and other installations	(358,354)	(17,622)	(16,228)	2,979	(7,670)	(396,895)
Buildings	(93,375)	(5,300)	(8,261)	2,235	10,993	(93,708)
Work in progress	–	–	–	–	–	0
Right-of-use assets	–	(6,688)	(4,794)	–	–	(11,482)
Investment property	(33,250)	(2,991)	–	646	(145)	(35,740)
Leased out under operating leases	–	–	–	–	–	–
	(537,032)	**(43,614)**	**(46,852)**	**6,618**	**3,165**	**(617,715)**
Impairment:						
For own use:						
Computer hardware and installations	(6,204)	(34)	–	–	–	(6,238)
Furniture, motor vehicles and other installations	(10,887)	(347)	(463)	–	–	(11,697)
Buildings	(16,076)	(2,460)	–	–	–	(18,536)
Work in progress	–	–	–	–	–	–
Right-of-use assets	–	–	–	–	–	–
Investment property	(43,546)	–	–	–	–	(43,546)
Leased out under operating leases	–	–	–	–	–	–
	(76,713)	**(2,841)**	**(463)**	**–**	**–**	**(80,017)**
Net total	**1,029,107**	**55,612**	**57,064**	**(14,120)**	**(3,603)**	**1,124,060**

As a result of the International Financial Reporting Standard (IFRS-EU) 16 on Leases becoming effective on 1 January 2019, at 31 December 2019 the Bank has recognised lease assets amounting to €78,960 thousand.

Financial year 2018-

	Thousands of euros					
	Opening balance at 31.12.2017	Additions	Additions arising from business combinations and transactions with group companies	Derecognitions	Transfers	Net Balance at 31.12.2018
Cost:						
For own use:						
Computer hardware and installations	95,810	13,552	–	(1,213)	347	108,496
Furniture, motor vehicles and other installations	506,898	25,682	–	(4,283)	1,744	530,041
Buildings	689,250	253	–	–	22,505	712,008
Work in progress	–	94	–	–	–	94
Right-of-use assets	–	–	–	–	–	–
Investment property	288,001	91		(2,367)	6,488	292,213
Leased out under operating leases	–	–	–	–	–	–
	1,579,959	**39,672**	**–**	**(7,863)**	**31,084**	**1,642,852**
Accumulated amortisation:						
For own use:						
Computer hardware and installations	(44,563)	(8,487)	–	1,097	(100)	(52,053)
Furniture, motor vehicles and other installations	(344,664)	(15,419)	–	3,656	(1,927)	(358,354)
Buildings	(87,211)	(5,005)	–	–	(1,159)	(93,375)
Work in progress	–	–	–	–	–	–
Right-of-use assets	–	–	–	–	–	–
Investment property	(31,371)	(2,359)	–	288	192	(33,250)
Leased out under operating leases	–	–	–	–	–	–
	(507,809)	**(31,270)**	**–**	**5,041**	**(2,994)**	**(537,032)**
Impairment:						
For own use:						
Computer hardware and installations	(6,132)	(72)	–	–	–	(6,204)
Furniture, motor vehicles and other installations	(10,402)	(485)	–	–	–	(10,887)
Buildings	(16,076)	–	–	–	–	(16,076)
Work in progress	–	–	–	–	–	–
Right-of-use assets	–	–	–	–	–	–
Investment property	(43,546)	–	–	–	–	(43,546)
Leased out under operating leases	–	–	–	–	–	–
	(76,156)	**(557)**	**–**	**–**	**–**	**(76,713)**
Net total	**995,994**	**7,845**	**–**	**(2,822)**	**28,090**	**1,029,107**

At 31 December 2019 "Buildings" in the foregoing table includes a revaluation of €181,679 thousand (€185,086 at 31 December 2018) arising from the recognition at fair value of items revalued due to various mergers in the past and/or to the revaluation of assets performed on 1 January 2004 in accordance with the change in accounting regulations.

14. Intangible Assets

In 2019 and 2018, the breakdown of the balance of this item in the statements of financial position is as follows:

Financial year 2019

	Thousands of euros					
	Opening balance at 31.12.2018	Additions	Additions arising from business combinations and transactions with group companies	Derecognitions	Transfers	Net Balance at 31.12.2019
Cost:						
Administrative concessions, computer software and transfer rights	23,037	30,226	–	(86)	–	53,177
Other	–	–	257,000	–	–	257,000
	23,037	**30,226**	**257,000**	**(86)**	**–**	**310,177**
Accumulated amortisation:						
Administrative concessions, computer software and transfer rights	(11,719)	(6,015)	–	–	–	(17,734)
Other	–	(22,529)	(143,300)	–	–	(165,829)
	(11,719)	**(28,544)**	**(143,300)**	**–**	**–**	**(183,563)**
Impairment:						
Administrative concessions, computer software and transfer rights	–	–	–	–	–	–
Other	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Net total	**11,318**	**1,682**	**113,700**	**(86)**	**–**	**126,614**

Financial year 2018-

	Thousands of euros					
	Opening balance at 31.12.2017	Additions	Additions arising from business combinations and transactions with group companies	Derecognitions	Transfers	Net Balance at 31.12.2018
Cost:						
Administrative concessions, computer software and transfer rights	18,228	4,829	–	(20)	–	23,037
Other	–	–	–	–	–	–
	18,228	**4,829**	**–**	**(20)**	**–**	**23,037**
Accumulated amortisation:						
Administrative concessions, computer software and transfer rights	(7,514)	(4,213)	–	8	–	(11,719)
Other	–	–	–	–	–	–
	(7,514)	**(4,213)**	**–**	**8**	**–**	**(11,719)**
Impairment:						
Administrative concessions, computer software and transfer rights	–	–	–			–
Other	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Net total	**10,714**	**616**	**–**	**(12)**	**–**	**11,318**

At 31 December 2019, intangible assets fully amortised or impaired amounted to €30,992 thousand (€600 thousand at 31 December 2018).

As a result of the corporate transactions completed in 2019 (see Note 2.22), the Bank has recognised in its statement of financial position the following intangible assets, relating to the valuation of customer relations:

At 31 December 2019 -

	Thousands of euros			
	Cost	Accumulated amortisation	Impairment	Net balance
Customer relations arising from *(See Note 2.22)*:				
Merger of ABANCA and ABANCA Holding Financiero, S.A.	*227,400*	*(165,300)*	–	*62,100*
Purchase of Deutsche Bank Portugal	*10,500*	*(529)*	–	*9,971*
Merger with Banco Caixa Geral	*19,100*	–	–	*19,100*
Balance at 31 December 2019	**257,000**	**(165,829)**	**–**	**91,171**

15. Other assets

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

	Thousands of euros	
	2019	2018
Prepaid expenses	41,916	2,611
Pension plans net assets (Note 21)	–	–
Inventories	876	944
Foreclosures in progress	–	332
Payments yet to be passed onto third parties	15,477	11,444
Deposit Guarantee Fund	24,102	29,933
Other	85,539	40,707
Transactions in transit	30,796	50,259
Insurance contracts linked to pensions (see Note 21)	142,406	136,232
	341,112	**272,462**

At 31 December 2019, "Deposit Guarantee Fund" includes €24,102 thousand (€29,933 thousand at 31 December 2018) relating to the present value of the extraordinary contribution approved by the Management Committee of the Deposit Guarantee Fund for Credit Institutions at its session held on 30 July 2012.

31 December 2019, "Prepaid expenses" includes €35,125 thousand relating to the variable fee accrued and outstanding with IM BCG RMBS 2 Asset Securitisation Fund.

At 31 December 2019 and 2018, "Transactions in transit" basically include transactions between branches and centres of the Bank that have not arrived at the destination branch, and charges generated by different entities through the Savings Bank Exchange Service ("SICA") system, mainly corresponding to customers and which are applied in the days following their reception.

16. Deposits from Central Banks and Credit Institutions

The breakdown of this item in the statement of financial position at 31 December 2019 and 2018, by classification, counterparty, nature and currency, is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Financial liabilities at amortised cost	8,338,481	7,748,622
	8,338,481	7,748,622
Counterparty:		
Central banks	4,693,470	3,462,470
Credit institutions	3,645,011	4,286,152
	8,338,481	7,748,622
Nature:		
Term accounts	1,930,973	1,677,255
Assets acquired or sold under resale or repurchase agreements (Note 7)	1,545,932	2,400,211
Other accounts	4,861,576	3,671,156
	8,338,481	7,748,622
Currency:		
Euro	8,173,620	7,603,899
Foreign currency	164,861	144,723
	8,338,481	7,748,622
Valuation adjustments:		
Accrued interest	(26,500)	(20,988)
Micro-hedges (+/-)	(4,845)	2,247
	8,307,136	7,729,881

At 31 December 2019, the limit allocated by the European Central Bank for financing from the credit system against pledged debt securities and loans totalled €3,861,993 thousand and €2,185,706 thousand, respectively, of which €4,693,470 thousand had been drawn down at 31 December 2019 (€3,462,470 thousand draw down at 31 December 2018). At 31 December 2019 the average annual interest rate on these drawdowns is -0.44% (-0.40% at 31 December 2018).

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

17. Deposits from customers

The breakdown of this item in the statement of financial position at 31 December 2019 and 2018, by classification, geographical area, nature and currency, is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Financial liabilities at amortised cost	43,601,231	37,294,121
	43,601,231	**37,294,121**
Geographical area:		
Spain	39,054,630	35,109,513
European Union (excluding Spain)	2,618,724	656,054
United States of America and Puerto Rico	443,283	98,907
Other OECD countries	816,772	770,549
Latin America	586,413	604,078
Rest of the world	81,409	55,020
	43,601,231	**37,294,121**
Nature:		
Demand:		
Current accounts	13,166,564	10,380,904
Savings accounts	15,377,726	13,545,267
Term deposits		
Fixed-term deposits	13,645,494	12,364,462
Hybrid financial liabilities	70,600	62,941
Assets acquired or sold under resale or repurchase agreements (Note 7)	1,340,847	940,547
	43,601,231	**37,294,121**
Currency:		
Euro	41,952,348	36,111,454
Foreign currency	1,648,883	1,182,667
	43,601,231	**37,294,121**
Valuation adjustments:		
Accrued interest	61,686	55,013
Transaction costs	(8,621)	(8,992)
Micro-hedges	28,898	40,799
	43,683,194	**37,380,941**

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

At 31 December 2019 and 2018, "Fixed-term deposits" in the above table respectively included 8 and 10 issues of non-negotiable covered bonds carried out by the Bank, the characteristics of which are shown below:

Mortgage covered bonds

Information required pursuant to Law 2/1981, of 25 March, governing the mortgage market, and to Royal Decree 716/2009, of 24 April, implementing certain aspects of this law.

These covered bonds are securities whose capital and interest are specifically secured by a mortgage, without the need to be registered, without prejudice to the overall liability of the Bank and, where appropriate, through the replacement assets and through the economic flows generated by the derivative financial instruments linked to each issue.

Covered bonds include the holder's rights to receivables vis-à-vis the Bank, secured as described in the preceding paragraph, and payment by the issuer is enforceable after maturity. Holders of these securities are pre-emptive creditors in accordance with article 1,923, point 3 of the Civil Code and have preference over all other creditors with regard to all mortgage loans held by the issuer in the case of mortgage bonds and in relation to the replacement assets and cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency proceedings, covered bond holders have the special privileges established in article 90, section 1, point 1 of Law 22/2003, of 9 July, (Insolvency Law). Nonetheless, in accordance with article 84, paragraph 2, point 7 of the Insolvency Law, during insolvency proceedings, payments of capital and interest on covered bonds issued and pending redemption at the date the request for insolvency proceedings is filed would be honoured up to the amount of income received by the insolvent party from the mortgage loans, as well as the replacement assets that back the bonds, if applicable, and the cash flows generated by the instruments associated with the issues.

In the event that income received by the insolvent party were insufficient to honour the payments mentioned in the preceding paragraph due to a timing difference, the administrators should settle these payments by selling off the replacement assets associated with the issue and, if this were not sufficient, carry out financing transactions to honour the obligatory payment of the bond holders, for which the financer assumes liability.

In the event that implementation of the procedures described in article 155, point 3 of the Insolvency Law were required, holders of covered bonds of the issuer would be paid on a pro rata basis, irrespective of the dates of issue of their securities.

The Board of Directors states that the Bank has specific policies and procedures in place encompassing all mortgage market issue activities carried out and guaranteeing strict compliance with applicable mortgage market legislation.

Information relating to mortgage covered bond issues

At 31 December 2019 and 2018, the breakdown of covered bond issues, and the main characteristics thereof, is as follows:

At 31 December 2019 -

Designation / Issuer	Issue date	Maturity date	ISIN	Nominal amount (Thousands of euros)	Type of Rate [(1)]	Settlement
A y T Cédulas Cajas Global FTA - serie III	14/12/2005	14/12/2022	ES0312298021	129,630	3.75%	Annual
A y T Cédulas Cajas Global FTA - Serie VI (*)	24/03/2006	24/03/2021	ES0312298054	300,000	4.00%	Annual
A y T Cédulas Cajas Global FTA - Serie X	25/10/2006	25/10/2023	ES0312298096	100,000	4.25%	Annual
A y T Cédulas Cajas Global FTA - Serie XIII (*)	25/05/2007	25/05/2027	ES0312298120	200,000	4.76%	Annual
A y T Cédulas Cajas X FTA - Serie B	30/06/2005	30/06/2025	ES0312342019	410,257	3.75%	Annual
A y T Cédulas Cajas IX FTA - Serie B (*)	31/03/2005	31/03/2020	ES0312358015	116,666	4.00%	Annual
Cédulas TDA 6 FTA	23/05/2005	23/05/2025	ES0317046003	200,000	3.88%	Annual
Programa Cédulas TDA FTA - Serie A6 (*)	10/04/2006	10/04/2031	ES0371622020	200,000	4.25%	Annual
				1,656,553		

(*) *The Bank's interest rate risk management policy for these issues is based on holding positions in fair value hedging derivatives, basically in the form of interest rate swaps, which are recognised as "Derivatives - hedge accounting" in both assets and liabilities sides of the statement of financial position (see Note 10).*

(1) *Unless specified otherwise in the above notes, issues have a fixed rate of interest.*

At 31 December 2018 -

Designation / Issuer	Issue date	Maturity date	ISIN	Nominal amount (Thousands of euros)	Type of Rate [(2)]	Settlement
AyT Cédulas Cajas Global FTA - serie III	14/12/2005	14/12/2022	ES0312298021	129,630	3.75%	Annual
A y T Cédulas Cajas Global FTA - Serie VI (*)	24/03/2006	24/03/2021	ES0312298054	300,000	4.00%	Annual
A y T Cédulas Cajas Global FTA - Serie X	25/10/2006	25/10/2023	ES0312298096	100,000	4.25%	Annual
A y T Cédulas Cajas Global FTA - Serie XIII (*)	25/05/2007	25/05/2027	ES0312298120	200,000	4.76%	Annual
A y T Cédulas Cajas Global FTA - Serie XIV	24/05/2007	24/05/2019	ES0312298138	50,000	0.018602%(1)	Quarterly
A y T Cédulas Cajas X FTA - Serie B	30/06/2005	30/06/2025	ES0312342019	410,257	3.75%	Annual
A y T Cédulas Cajas IX FTA - Serie B (*)	31/03/2005	31/03/2020	ES0312358015	116,666	4.00%	Annual
A y T Cédulas Cajas VIII FTA - Serie B	18/11/2004	18/11/2019	ES0312362017	26,829	4.26%	Annual
Cédulas TDA 6 FTA	23/05/2005	23/05/2025	ES0317046003	200,000	3.88%	Annual
Programa Cédulas TDA FTA - Serie A6 (*)	10/04/2006	10/04/2031	ES0371622020	200,000	4.25%	Annual
				1,733,382		

(*) *The Bank's interest rate risk management policy for these issues is based on holding positions in fair value hedging derivatives, basically in the form of interest rate swaps, which are recognised as "Derivatives - hedge accounting" in both assets and liabilities sides of the statement of financial position (see Note 10).*

(1) *Interest rate pegged to 3-month Euribor plus a spread of 0.0936%.*

(2) *Unless specified otherwise in the above notes, issues have a fixed rate of interest.*

These covered bonds have been issued pursuant to the provisions of Law 2/1981, of 25 March, governing the mortgage market, and the regulations implementing it.

Movement in the nominal value of these liabilities during the year ended 31 December 2019 reflects the redemption on maturity of three issues of covered bonds for a combined amount of

€76,829 thousand (redemption on maturity of two covered bond issues for a combined amount of €685,321 thousand in the year ended 31 December 2018).

The Group had no matured covered bond issues at 31 December 2019 and 2018.

Qualitative information on mortgage market activities

At 31 December 2019 and 2018, the breakdown of mortgage loans by eligibility for mortgage market purposes is as follows:

	Thousands of euros	
	Nominal amount	
	2019	2018
Total loans (*)	18,729,737	16,311,059
Collateralised mortgage bonds issued		
Of which: loans recognised as assets	*825,724*	–
Mortgage transfer certificates issued		
Of which: loans recognised as assets	*1,554,925*	*1,617,682*
Mortgage loans pledged as collateral to secure financing received		
Mortgage loans that back the issue of mortgage bonds and covered bonds (**)	16,349,088	14,693,377
i) Ineligible loans (***)	5,158,953	5,344,195
- *Loans meeting the eligibility requirements, except the limit requirement of Article 5.1 of Royal Decree 716/2009*	*4,031,268*	*3,841,854*
- *Other ineligible loans*	*1,127,685*	*1,502,341*
ii) Eligible loans (****)	11,190,135	9,349,182
- *Loans backing mortgage covered bond issues (*****)*	–	–
- *Loans qualifying for backing mortgage covered bond issues*	*11,190,135*	*9,349,182*
- *Non-qualifying amounts*	*65,772*	*60,437*
- *Qualifying amounts*	*11,124,363*	*9,288,745*

(*) *Including those acquired through collateralised mortgage bonds and mortgage transfer certificates, even if they have been derecognised from the statement of financial position.*

(**) *Total loans less collateralised mortgage bonds issued, mortgage transfer certificates issued, and mortgage loans pledged as collateral to secure financing received.*

(***) *Not meeting the requirements of article 3 of Royal Decree 716/2009.*

(****) *Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.*

(*****) *Pursuant to the criteria set forth in article 12 of Royal Decree 716/2009.*

The nominal value of existing mortgage loans and eligible loans in accordance with Royal Decree 716/2009, without considering the computation limits set forth in article 12 of foregoing Royal Decree 716/2009, is shown below. The values are broken down by source, currency, payment status, average residual maturity, interest rate, borrower, type of collateral, and the ratio of transaction amount to appraisal value of the respective properties mortgaged:

At 31 December 2019 -

	Thousands of euros	
	Mortgage loans that back the issue of mortgage bonds and covered bonds	Of which: eligible loans (*)
TOTAL	16,349,088	11,190,135
TRANSACTION ORIGINATION		
Originated by the Entity	15,667,264	11,110,723
Subrogated from other entities	88,247	66,299
Other	593,577	13,113
CURRENCY		
Euro	16,039,015	11,184,936
Other currencies	310,073	5,199
PAYMENT STATUS		
Performing	15,711,589	11,032,778
Other status	637,499	157,357
AVERAGE RESIDUAL MATURITY		
Up to 10 years	2,936,151	1,788,124
10 to 20 years	5,622,318	4,042,154
20 to 30 years	6,780,998	4,901,412
More than 30 years	1,009,621	458,445
INTEREST RATES		
Fixed interest rate	547,878	266,603
Floating interest rate	14,888,452	10,278,847
Mixed interest rate	912,758	644,685
HOLDERS		
Legal entities and individual entrepreneurs	2,904,992	1,068,686
Of which: Real estate construction and property development	*722,246*	*318,714*
Rest of households	13,444,096	10,121,449
TYPE OF COLLATERAL		
Completed assets/buildings	15,636,485	10,900,880
Housing	13,728,055	10,295,939
Of which: social housing	*814,445*	*519,541*
Offices and commercial premises	744,477	293,897
Other buildings and constructions	1,163,953	311,044
Assets/buildings under construction	595,082	238,516
Housing	*409,328*	169,567
Of which: social housing	17,771	*131*
Offices and commercial premises	16,062	7,052
Other buildings and constructions	169,692	61,897
Land	117,521	50,739
Consolidated urban land	54,127	20,637
Rest of land	63,394	30,102

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

At 31 December 2018 -

	Thousands of euros	
	Mortgage loans that back the issue of mortgage bonds and covered bonds	Of which: eligible loans (*)
TOTAL	**14,693,377**	**9,349,182**
TRANSACTION ORIGINATION		
Originated by the Entity	13,990,504	9,267,348
Subrogated from other entities	86,372	64,293
Other	616,501	17,541
CURRENCY		
Euro	14,446,742	9,349,182
Other currencies	246,635	–
PAYMENT STATUS		
Performing	13,953,758	9,153,160
Other status	739,619	196,022
AVERAGE RESIDUAL MATURITY		
Up to 10 years	2,762,298	1,536,047
10 to 20 years	4,944,293	3,401,221
20 to 30 years	6,351,599	4,186,649
More than 30 years	635,187	225,265
INTEREST RATES		
Fixed interest rate	1,066,680	641,083
Floating interest rate	13,456,049	8,668,194
Mixed interest rate	170,648	39,905
HOLDERS		
Legal entities and individual entrepreneurs	3,109,092	1,138,447
Of which: Real estate construction and property development	*462,817*	*160,218*
Rest of households	11,584,285	8,210,735
TYPE OF COLLATERAL		
Completed assets/buildings	14,042,033	9,188,694
Housing	12,388,421	8,587,331
Of which: social housing	*220,425*	*145,193*
Offices and commercial premises	1,003,662	408,789
Other buildings and constructions	649,950	192,574
Assets/buildings under construction	309,815	107,199
Housing	*278,937*	97,310
Of which: social housing	25,087	*9,416*
Offices and commercial premises	11,023	5,632
Other buildings and constructions	19,855	4,257
Land	341,529	53,289
Consolidated urban land	69,226	39,473
Rest of land	272,303	13,816

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

The distribution of nominal values according to the principal draw compared to the latest available appraisal (*loan to value* (*LTV*)) in accordance with Royal Decree 716/2009, without considering the computation limits set forth in article 12 of foregoing Royal Decree 716/2009, is shown below.

	31 December 2019			
	Principal drawn compared to the latest available appraisal (*LTV*) (Thousands of euros)			
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	TOTAL
TYPE OF COLLATERAL				
Loans eligible for issues of mortgage bonds and covered bonds (*)	3,273,130	4,503,380	3,413,625	11,190,135
Housing collateral	*2,973,583*	*4,095,285*	*3,396,639*	*10,465,507*
Other real estate collateral	*299,547*	*408,095*	*16,986*	*724,628*

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

	31 December 2018			
	Principal drawn compared to the latest available appraisal (*LTV*) (Thousands of euros)			
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	TOTAL
TYPE OF COLLATERAL				
Loans eligible for issues of mortgage bonds and covered bonds (*)	2,745,348	3,720,388	2,883,446	9,349,182
Housing collateral	*2,425,279*	*3,393,177*	*2,866,185*	*8,684,641*
Other real estate collateral	*320,069*	*327,211*	*17,261*	*664,541*

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

The breakdown of the available balances under mortgage loans backing the issue of mortgage bonds and covered bonds are as follows:

	Thousands of euros	
	Undrawn principals (*)	
	31.12.19	31.12.18
Mortgage loans that back the issue of mortgage bonds and covered bonds		
Total	481,317	495,519
Potentially eligible (**)	200,007	196,443
Ineligible	281,310	299,076

(*) Amounts committed less amounts drawn down, including those amounts that are only transferred to developers when homes are sold.

(**) Pursuant to article 3 of Royal Decree 716/2009.

At 31 December 2019 and 2018 and during the years then ended the Bank had no replacement assets tied to the issue of mortgage bonds and covered bonds.

Mortgage securities

At 31 December 2019 and 2018, the breakdown of outstanding mortgage securities issued by the Bank is as follows:

At 31 December 2019 -

	Nominal amount (Thousands of euros)	Average residual maturity (*)
MORTGAGE SECURITIES		
Mortgage bonds issued (**)	–	
Of which: recognised as liabilities	–	
Mortgage covered bonds issued (**)	2,456,553	
Of which: recognised as liabilities	*2,456,553*	
Debt securities Issued to the public	–	
Residual maturity, up to one year	–	
Residual maturity, more than one year and up to two years	–	
Residual maturity, more than two years and up to three years	–	
Residual maturity, more than three years and up to five years	–	
Residual maturity, more than five years and up to ten years	–	
Residual maturity, over ten years	–	
Debt securities Other issues	800,000	
Residual maturity, up to one year	50,000	
Residual maturity, more than one year and up to two years	–	
Residual maturity, more than two years and up to three years	–	
Residual maturity, more than three years and up to five years	–	
Residual maturity, more than five years and up to ten years	750,000	
Residual maturity, over ten years	–	
Deposits	1,656,553	
Residual maturity, up to one year	116,667	
Residual maturity, more than one year and up to two years	300,000	
Residual maturity, more than two years and up to three years	129,630	
Residual maturity, more than three years and up to five years	100,000	
Residual maturity, more than five years and up to ten years	810,256	
Residual maturity, over ten years	200,000	
Collateralised mortgage bonds issued	825,724	292
Issued to the public	–	–
Other issues	825,724	292
Mortgage transfer certificates issued (***)	40,487	325
Issued to the public	–	–
Other issues	40,487	325

(*) Average residual maturity weighted by amount, expressed in rounded months (rounded to the later month where equidistant from the two).

(**) Mortgage bonds and covered bonds include all instruments issued by the entity pending redemption, even if they have not been recognised under liabilities (because they have not been placed with third parties or have been repurchased).

(***) The amount of collateralised mortgage bonds and mortgage transfer certificates issued that solely comprise mortgage loans still recognised under assets on the statement of financial position.

At 31 December 2018 -

	Nominal amount (Thousands of euros)	Average residual maturity (*)
MORTGAGE SECURITIES		
Mortgage bonds issued (**)	–	
Of which: recognised as liabilities	–	
Mortgage covered bonds issued (**)	2,783,382	
Of which: recognised as liabilities	*2,453,398*	
Debt securities Issued to the public	–	
Residual maturity, up to one year	–	
Residual maturity, more than one year and up to two years	–	
Residual maturity, more than two years and up to three years	–	
Residual maturity, more than three years and up to five years	–	
Residual maturity, more than five years and up to ten years	–	
Residual maturity, over ten years	–	
Debt securities Other issues	1,050,000	
Residual maturity, up to one year	–	
Residual maturity, more than one year and up to two years	1,000,000	
Residual maturity, more than two years and up to three years	50,000	
Residual maturity, more than three years and up to five years	–	
Residual maturity, more than five years and up to ten years	–	
Residual maturity, over ten years	–	
Deposits	1,733,382	
Residual maturity, up to one year	76,829	
Residual maturity, more than one year and up to two years	116,667	
Residual maturity, more than two years and up to three years	300,000	
Residual maturity, more than three years and up to five years	229,630	
Residual maturity, more than five years and up to ten years	810,256	
Residual maturity, over ten years	200,000	
Collateralised mortgage bonds issued	–	–
Issued to the public	–	–
Other issues	–	–
Mortgage transfer certificates issued (***)	1,574,782	262
Issued to the public	–	–
Other issues	1,574,782	262

(*) Average residual maturity weighted by amount, expressed in rounded months (rounded to the later month where equidistant from the two).

(**) Mortgage bonds and covered bonds include all instruments issued by the entity pending redemption, even if they have not been recognised under liabilities (because they have not been placed with third parties or have been repurchased).

(***) The amount of collateralised mortgage bonds and mortgage transfer certificates issued that solely comprise mortgage loans still recognised under assets on the statement of financial position.

18. Debt securities issued

a) Breakdown

At 31 December 2019 and 2018 the breakdown, by classification and nature, of the balance of this item in the statement of financial position is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Financial liabilities at amortised cost	1,453,240	725,805
	1,453,240	725,805
Nature:		
Mortgage securities	800,300	1,050,000
Other non-convertible securities	–	–
Own securities	–	(329,984)
Subordinated liabilities (Note 19)	652,940	5,789
	1,453,240	725,805
Currency:		
Euros	1,453,240	725,805
	1,453,240	725,805
Valuation adjustments:		
Accrued interest	28,092	28,591
Micro-hedges	6,303	431
Transaction costs	(11,059)	–
	1,476,576	754,827

The currency of these marketable securities was the Euro for all issues.

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

b) Mortgage securities

The covered bond issues carried out by the Bank were agreed by its Board of Directors by virtue of the authorisations granted by the Bank's shareholders at their General Meeting and pursuant to the limits approved by the aforementioned governing body.

The main characteristics of outstanding issues at 31 December 2019 and 2018 are as follows:

At 31 December 2019 -

Designation	Number of Securities	Nominal value Thousands of euros	Date of Issue	Date of Maturity	Interest rate	Settlement of interest
Mortgage covered bonds, May 2010	1,000	50,000	01/05/2010	31/07/2020	4.90%	Annual
Mortgage covered bonds, May 2019	7,500	750,000	28/05/2019	28/05/2029	0.75%	Annual
		800,000				

At 31 December 2018 -

Designation	Number of Securities	Thousands of euros Nominal	Date of Issue	Date of Maturity	Type of Interest rate	Settlement of Interest
Caixa Galicia 2007 – 1st Issue	10,000	1,000,000	23/01/2007	23/01/2019	4.38%	Annual
Mortgage covered bonds, May 2010	1,000	50,000	01/05/2010	31/07/2020	4.90%	Annual
		1,050,000				

These covered bonds have been issued pursuant to the provisions of Law 2/1981 of 25 March, governing the mortgage market, and the regulations implementing it.

Changes in nominal value recorded in the balance of this item during 2019 and 2018 were as follows:

	Thousands of Euros
2018 Opening balance	**1,050,000**
Redemptions	–
Closing balance 2018	**1,050,000**
Issues	750,000
Redemptions	(1,000,000)
Balance at 31 December 2019	**800,000**

Dated 28 May 2019, the Group laid down the economic conditions for an issue of €750,000 thousand in mortgage covered bonds. These bonds were issued at 99.34% of nominal value and will bear interests, payable annually in arrears, at a 0.75% annual rate until 28 May 2029. These bonds will mature on 28 May 2029, subject to ABANCA's option to redeem them early under certain circumstances.

In 2019, bonds totalling €1,000,000 thousand matured (no mortgage covered bonds matured in 2018).

c) Other non-convertible securities

At 31 December 2019 y 2018, there are no issues included under the portfolio "Other non-convertible securities".

Changes in the redemption value of this item during 2018 were as follows:

	Thousands of Euros
2017 Closing balance	**25,000**
Redemptions	(25,000)
Closing balance de 2018	**–**

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Bonds totalling €25,000 thousand matured in 2018.

d) Other convertible securities

As a result of the merger of ABANCA Corporación Bancaria, S.A. (absorbing company) and ABANCA Holding Financiero, S.A. (absorbed company) referred to in Note 2.22 above, the following movements were recorded in this portfolio (nominal value):

	Thousands of Euros
Closing balance de 2018	–
Additions arising from transactions with Group companies	189,600
Redemptions	(189,600)
2019 Closing balance	–

This portfolio included convertible covered bonds with the following main characteristics:

- On 18 September 2014 the General meeting of Shareholders of ABANCA Holding Financiero, S.A., formerly Banesco Holding Financiero 2, S.A.U., (the Issuer) approved the issue of 2,696 bonds exchangeable for common shares in the entity resulting from the merger of NCG Banco, S.A. (currently named ABANCA Corporación Bancaria, S.A) and Banco Etcheverría, S.A.; the issue was subscribed and paid up on 1 October 2014 (the Issue). The Issue was formalised in a public deed dated 19 September 2014 authorised by a Notary Public of Madrid.

- The nominal amount of these bonds was €269,600 thousand; the bonds had a biannual coupon and bore interest at 10% during their initial four years and at 11% from 1 October 2018 to their maturity date, 1 October 2019.

- Dated 29 December 2014, 800 bonds (with a nominal amount of €80,000 thousand) were contributed to the Issuer's own funds; these bonds were redeemed and cancelled in accordance with the Terms and Conditions of the Issue.

- The obligations arising from those bonds were secured by a First Ranking Pledge Agreement for the benefit of Syndicate of Bondholders, executed in Madrid before a Notary Public, on 269,600,000 common shares of ABANCA Corporación Bancaria, S.A.

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19. Subordinated liabilities

a) Breakdown

At 31 December 2019 and 2018 the breakdown, by classification and nature, of the balance of this item in the statement of financial position is as follows:

	Thousands of euros	
	2019	2018
Classification:		
Financial liabilities at amortised cost	652,940	5,789
	652,940	5,789
Nature:		
Subordinated liabilities	653,500	5,789
Own securities	(560)	–
	652,940	5,789
Valuation adjustments		
Accrued interest	23,699	–
Transaction costs	(3,861)	–
	672,778	5,789

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2019 and 2018 reporting dates, as well as the average annual interest rates.

Dated 26 September 2019, the Bank laid down the economic terms of an issue of €300,000 thousand in subordinated notes (Fix rate Reset Subordinated Notes). These notes were issued at par value and will bear interests, payable annually in arrears, at a 4.625% annual fixed rate until 7 April 2025; thereafter the interest rate will be reviewed by applying a 5.014% spread on 5-year Mid-Swap Rate. These notes will mature on 7 April 2030, subject to ABANCA's option to redeem them early under certain circumstances. This issue was paid up and closed on 7 October 2019. The securities issued are eligible as Tier 2 capital instruments, in accordance with the provisions of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions and in accordance with the criteria of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Dated 11 January 2019, the Group laid down the economic conditions for an issue of €350,000 thousand in subordinated notes. These notes were issued at par value and will bear interests, payable annually in arrears, at a 6.125% annual fixed rate until 18 January 2024; thereafter the interest rate will be reviewed by applying a 5.927% spread on 5-year Mid-Swap Rate. These notes will mature on 18 January 2029, subject to ABANCA's option to redeem them early under certain circumstances. The securities issued are eligible as ABANCA and ABANCA Group tier 2 capital (Tier 2) instruments in accordance with the provisions of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions and in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

At 31 December 2019, the balance includes the issue of simple subordinated bonds known as "Obligaciones subordinadas Banco Etcheverría" for a nominal amount of €3,500 thousand (€6,500 thousand at 31 December 2018). The main characteristics of these issues are as follows:

- Third issue for a nominal amount of €2,300 thousand, divided into 2,300 bonds of €1,000 par value each, all with the same rights. The issue was formalised in a public deed executed on 10 December 2010. These bonds are not listed, and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

- Fourth issue for a nominal amount of €1,200 thousand, divided into 1,200 bonds of €1,000 par value each, all with the same rights. The issue was formalised in a public deed executed on 14 December 2011. These bonds are not listed, and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

The applicable interest rates are as follows:

- For the third issue, 4.00% per annum for the first two years and the 6-month Euribor plus 0.25% for subsequent periods.

- For the fourth issue, 4.30% per annum for the first three years and the 6-month Euribor plus 0.3% for subsequent periods.

b) Changes

Changes in nominal value recorded under the balance of this item during 2019 and 2018 were as follows:

	Thousands of Euros
2018 Opening balance	**10,395**
Redemptions	(3,895)
Closing balance 2018	**6,500**
Issues	650,000
Redemptions	(3,000)
Balance at 31 December 2019	**653,500**

c) Arbitration proceedings and claims arising from Burden Sharing

On 4 July 2013, as a result of the hybrid equity instrument and subordinated debt management transactions, the Bank executed the buyback and redemption of all of its subordinated bonds and preference shares.

At the date of authorisation for issue of these financial statements, legal proceedings underway affect preference shares or subordinated debt with a nominal amount of €3,516 thousand (€5,854 thousand at 31 December 2018). To address any liabilities that might arise from these proceedings, the Bank has recognised a provision of €3,515 thousand (€5,405 thousand at 31 December 2018) (see Note 21). Furthermore, in accordance with the agreement for the sale-purchase of the Bank, the FROB has extended guarantees to the Bank to address the liability that could arise from these processes, and which have been recognised under "Financial assets at amortised cost" in the asset side of the statement of financial position. For the most part, they have been recognised by the FROB or are estimated based on assumptions at 31 December 2019.

20. Other financial liabilities

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

	Thousands of euros	
	2019	2018
Commercial creditors	15,537	8,161
Collateral received	2	–
Tax collection accounts		
Central Government	15,396	8,682
Autonomous governments	1,413	1,158
Local governments	10	–
Social security funds	21,145	1,022
Outstanding payment orders and traveller's cheques	29,653	28,285
Transactions on stock exchanges or organised markets		
pending settlement	2,408	2,286
Financial guarantees	10,782	8,358
Other	101,797	26,280
	198,143	**84,232**

In the above table, "Other" include the following:

- €22,192 thousand at 31 December 2019 (€24,758 thousand at 31 December 2018) relating to the extraordinary contribution approved by the Management Committee of the Deposit Guarantee Fund for Credit Institutions in 2012, estimated on the basis of contributions at 31 December 2011 and payable through annual instalments over a period of ten years (see Notes 1.8 and 15).

- €78,993 thousand 31 December 2019, relating to the recognition of lease liabilities as a result of application of Bank of Spain Circular 2/2018 (see Note 2.11).

21. Provisions

The breakdown of the balance of this item in the accompanying statements of financial position at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Pensions and other post-employment defined benefit obligations	160,896	158,437
Outstanding tax-related legal proceedings and litigation	16,684	17,195
Commitments and guarantees given	77,416	83,644
Other provisions	120,358	63,596
	375,354	**322,872**

a) Pensions and other post-employment defined benefit obligations

An itemised breakdown of "Provisions - Pensions and other post-employment defined benefit obligations" in the above table is as follows:

	Thousands of euros	
	2019	2018
Defined benefit plans:		
Post-employment commitments	143,715	133,652
Early retirement commitments and labour agreements (*)	16,471	24,609
Other commitments	710	176
	160,896	**158,437**

(*) At 31 December 2019 this item includes €16,471 thousand relating to existing labour agreements (€24,609 thousand at 31 December 2018). See Note 2.12.

The following disclosures include the liabilities arising from the merger with Banco Caixa Geral (see Note 2.22).

Post-employment defined contribution plans

ABANCA's pension commitments with serving and retired personnel have been externalised, mostly through the ABANCA personnel pension plan, and the remainder through insurance policies that are appropriate for the externalisation of these commitments.

Two pension funds are linked to the ABANCA personnel pension plan:

- "Fondo de Pensiones A del Personal de ABANCA", which is managed by ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U. and for which the custodian is CECA. The members and beneficiaries of the former "Empleados Caixa Galicia" pension plan are included in this plan, as do the employees that have already joined ABANCA, including former Banco Etcheverría personnel.

- "Fondo de Pensiones B del Personal de ABANCA", which is managed by CASER Pensiones, S.A. and for which the custodian is CECA. The members and beneficiaries of the former "Personal Caixanova" pension plan are included in to this plan.

The ABANCA personnel pension plan, of which ABANCA became the sponsor on 7 October 2014, is the result of integrating the pension plans of the entities that gave rise to ABANCA. It is a hybrid employment pension plan, which for the most part covers defined contribution retirement commitments (exceptionally, and in view of the date on which they joined the Entity, there is still a small number of employees under a defined benefit scheme for this contingency), and defined benefits for the death and disability risk contingencies.

In 2016 the members and beneficiaries of the Banco Etcheverría employment plan, as well as their economic rights held therein, were integrated into the A pension fund.

In 2019, contributions made by the Group to external pension funds amounted to €8,402 thousand recognised under "Personnel expenses" in the statement of profit or loss for the reporting period (€150 thousand in 2018) (see Note 35).

Post-employment defined benefit plans

Pursuant to the current labour agreements, the Bank has assumed the commitment to supplement the Social Security benefits that correspond to its retired personnel, current employees or beneficiary right holders, in the event of retirement.

These commitments are addressed by:

1. The aforementioned external pension plans, which encompass retired personnel and certain current employees.

2. Insurance policies: the Bank has insured the accrued obligations not financed through the pension plan, as well as the retirement commitments with certain personnel, through insurance policies with unrelated entities (Caser and CNP Vida, S.A. de Seguros y Reaseguros) and with related entities (ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U.) that comply with the requirements set out in Royal Decree 1588/1999, of 15 October. Certain undertakings with retired personnel are insured through insurance policies with unrelated entities (CNP Vida, S.A. de Seguros y Reaseguros) that do not comply with the requirements of the aforementioned Royal Decree. At 31 December 2019 and 2018 the Bank has not made any payments in connection with this item.

Other long-term employee benefits

The Bank uses internal funds to cover commitments agreed with semi-retired and early-retired personnel prior to 2011, with early-retired personnel covered under the Agreement of 4 October 2010, and with personnel early-retired in 2011 not covered by the Agreement, the Labour Agreement of 22 March 2012 and that of 14 February 2013.

Details of the present value of post-employment and other long-term employee benefit commitments undertaken by the Bank, according to how these commitments are covered, and the fair value of the plan assets earmarked to cover the commitments, pursuant to the provisions of Bank of Spain Circular 4/2017 as amended, are as follows:

	Thousands of euros	
	2019	2018
Present value of accrued commitments	642,291	562,480
Pension Plans	427,506	352,030
Insurance policies	214,785	210,450
Other commitments (pre-2011 early retirements, partial retirements, Portugal loyalty bonus and labour agreements)	17,180	24,784
	659,471	587,264
Less – Fair value of plan assets	498,575	428,827
Net liabilities	**160,896**	**158,437**
Of which:		
"Unrecognised pension assets"	–	–
"Pension assets" (Note 15)	–	–
"Provisions- Pensions and other post-employment defined benefit obligations"	160,896	158,437
"Provisions - Pensions and other post-employment defined benefit obligations"	**160,896**	**158,437**
"Insurance contracts linked to pensions"	**142,406**	**136,232**
Group entities	130,549	124,158
Other entities	11,857	12,074

The present value of the commitments has been quantified by qualified independent actuaries, under their responsibility, applying the following criteria:

1. Calculation method for serving personnel: "Projected unit credit method", which considers that each year of service gives rise to an additional unit of benefit and values each unit separately.

2. The financial and actuarial assumptions used are unbiased and mutually compatible. The most significant actuarial assumptions considered in the calculations were as follows:

Technical interest rate	Between -0.09% and 0.73%
Expected rate of return	Between 0.11% and 1.62%
Mortality tables	PERMF/-2000P / PE 98-99 adjusted in five years
CPI growth	1.5% / 1.75%
Annual rate of pension revaluation	0.25% / 1.5%
Annual growth rate of wages	2.5% / 2.75%
Retirement age	60 – 65 years

The technical interest rate used was determined by reference to high-quality corporate bonds based on the average estimated duration of each commitment.

Changes to the main assumptions could affect the calculation of the commitments. A decrease or increase of 50 basis points in the discount rate would result, respectively, in an increase or decrease in the present value of post-employment obligations of +/- 6.62%. A decrease or increase of 50 basis points in the pension increase rate would result, respectively, in a decrease or increase in the present value of post-employment obligations of +/- 6.15%. These changes would be partially offset by increases or decreases in the fair value of the assets and of the insurance contracts linked to pensions.

For commitments undertaken through pension plans, the fair value of the assets has been measured as the value of the net assets of these plans at 31 December 2019, as certified by the management companies. For commitments undertaken through insurance policies (Caser, CNP Vida, S.A. de Seguros y Reaseguros and ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.), the fair value of the insurance contracts has been determined as the present value of the associated payment obligations.

Movements in provisions for pensions and similar obligations in the years ended 31 December 2019 and 2018 are shown below:

	Thousands of Euros
2017 Closing balance	**176,781**
Net allowance charged to profit or loss	
Finance cost (Note 29)	6,295
Rate of return of assets	(7,245)
Personnel expenses (Note 35)	8,423
Allowances for pension funds	(7,299)
Changes in value recognised in equity	(5,274)
Application of balances	(13,244)
2018 Closing balance	**158,437**
Net allowance charged to profit or loss	
Finance cost (Note 29)	7,892
Rate of return of assets	(8,353)
Personnel expenses (Note 35)	6,485
Allowances for pension funds	(8,982)
Additions arising from business combinations	519
Changes in value recognised in equity	1,335
Application of balances	3,563
2019 Closing balance	**160,896**

The Bank recognises actuarial gains and losses in respect of commitments with early retirees and from labour agreements in the statement of profit or loss, as stipulated in Circular 5/2013.

Movement in the present value of the obligation accrued for other long-term employee benefits in 2019 and 2018 was as follows:

	Thousands of euros	
	2019	2018
Present value of obligations at 1 January	24,784	35,278
Current service cost	57	12
Interest cost	40	(27)
Past service cost	3,984	7,932
Disposals	–	–
Benefits paid	(9,745)	(11,996)
Actuarial (gains)/losses	(149)	(1,666)
Other changes	(1,791)	(4,749)
Present value of obligations at year-end	**17,180**	**24,784**

The Bank recognises actuarial gains and losses on defined benefit post-employment plans in equity, as stipulated in Circular 5/2013.

The breakdown, by nature thereof, of assets linked to the pension plans at the 2019 and 2018 reporting dates are as follows:

	Thousands of euros	
	2019	2018
Equity instruments	1,168	5,330
Insurance policies	489,624	409,896
Other	7,783	13,601
	498,575	**428,827**

Movements in the present value of the obligation accrued for defined benefit post-employment commitments in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Present value of obligations at 1 January	562,480	635,947
Additions arising from business combinations	81,197	–
Current service cost	864	1,863
Interest cost	8,092	6,322
Past service cost	1,816	281
Disposals	(13,838)	(12,009)
Benefits paid	(41,335)	(32,500)
Actuarial (gains)/losses (*)	43,016	(37,424)
Other changes	(1)	–
Present value of obligations at year-end	**642,291**	**562,480**

(*) In 2019, "Actuarial (gains)/losses" includes demographic actuarial gains of €2,815 thousand and financial actuarial losses of €45,831 thousand. In 2018, "Actuarial (gains)/losses" included demographic actuarial gains of €5,559 thousand and financial actuarial gains of €31,865 thousand.

Changes in the fair value of plan assets in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Fair value of assets at 1 January	428,827	495,317
Additions arising from business combinations	81,253	–
Expected rate of return of plan assets	6,735	5,818
Actuarial gains/(losses)	29,580	(38,631)
Contributions	(6,917)	218
Benefits paid	(33,746)	(24,439)
Disposals	(7,156)	(9,458)
Other changes	(1)	2
Fair value of assets at the reporting date	**498,575**	**428,827**

Changes in the fair value of reimbursement rights in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Fair value of reimbursement rights at 1 January	136,232	149,004
Expected rate of return of plan assets	1,861	1,428
Actuarial gains/(losses)	12,070	(4,067)
Contributions	(6,395)	(2,254)
Benefits paid	(1,362)	(7,879)
Disposals	–	–
Fair value of reimbursement rights at the reporting date	**142,406**	**136,232**

Total expense recognised in the statement of profit or loss in 2019 and 2018 was as follows:

	Thousands of euros	
	2019	2018
Current service cost	920	1,875
Past service cost	5,800	8,213
Net interest cost	1,157	477
Of which:		
Interest cost	*7,892*	*6,295*
Expected rate of return of plan assets	*(6,735)*	*(5,818)*
Expected rate of return of reimbursement rights	(1,618)	(1,427)
Actuarial (gains)/losses on LTRR	(149)	(1,666)
Disposals	(8,985)	(7,298)
Total	**(2,875)**	**174**

Changes in valuation adjustments in equity due to actuarial gains and losses in 2019 and 2018 were as follows:

	Thousands of Euros
2018 Opening balance	**(13,909)**
Changes in actuarial losses and gains	(5,274)
2018 Closing balance	**(19,183)**
Additions arising from business combinations	(2,939)
Changes in actuarial losses and gains	1,572
2019 Closing balance	**(20,550)**

b) Commitments and guarantees extended, outstanding tax-related legal proceedings and litigation and other provisions-

The breakdown of changes in the balance of this item in 2019 and 2018 is as follows:

	Thousands of euros			
	Provisions for commitments and guarantees extended	Provisions for outstanding legal proceedings and litigation in relation to taxes	Other provisions	Total
Balance at 1 January 2018	**75,674**	**2,276**	**130,746**	**208,696**
(Net) Allowance to profit or loss for the period	(3,512)	14,919	6,507	17,914
Provisions used and other	(9,666)	–	(35,185)	(44,851)
Transfers	–	–	–	–
Impact from application of Circular 4/2017	21,148	–	–	21,148
Other changes	–	–	(38,472)	(38,472)
Balance at 31 December 2019	**83,644**	**17,195**	**63,596**	**164,435**
(Net) Allowance to profit or loss for the period	(8,965)	–	73,648	64,683
Additions arising from business combinations and transactions with group companies	2,737	1,969	15,733	20,439
Provisions used and other	–	(2,480)	(32,619)	(35,099)
Transfers	–	–	–	–
Other changes	–	–	–	–
Balance at 31 December 2019	**77,416**	**16,684**	**120,358**	**214,458**

At 31 December 2019, "Other provisions" in the table above basically includes provisions recognised by the Bank for other liabilities of a specific nature, either certain or contingent, of which €9 million relate to the provision for the contingent liability arising from the judgment on claims relating to mortgage floor clauses (€12 million at 31 December 2018); €1 million relate to the provision for claims concerning the arrangement of interest rate hedges tied to mortgage loans granted to families and self-employed persons (€3 million at 31 December 2018); approximately €4 million relate to the provision for eventual contingent liabilities stemming from the management of hybrid equity instruments and subordinated debt (€5 million at 31 December 2018) and €106 million relate to the provision to cover commitments with third parties in connection with the activity of the Bank (€44 million at 31 December 2018).

The amount relating to the existing guarantee set out in the sale-purchase agreement related to the floor clauses is recognised under "Financial assets at amortised cost" in the asset side of the statement of financial position.

22. Other liabilities

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

	Thousands of euros	
	2019	2018
Salaries payable	45,108	36,364
Other accrued expenses	90,998	94,095
Transactions in transit	48,068	64,289
Lease transactions	368	629
Other	62,972	29,945
	247,514	**225,322**

At 31 December 2019 and 2018, "Transactions in transit" basically include transactions between branches and centres of the Bank that have not arrived at the destination branch, and charges generated by different entities through the Savings Bank Exchange Service ("SICA") system, mainly corresponding to customers and which are applied in the days following their reception.

At 31 December 2019 "Other accrued expenses" includes €45,857 thousand (€40,223 thousand at 31 December 2018) relating to the estimated expense accrued over the year for the ordinary contribution to the Deposit Guarantee Fund.

23. Accumulated other comprehensive income

a) *Financial assets at fair value through other comprehensive income*

At 31 December 2019 and 2018, this item in the statement of financial position includes the net amount of fair value changes in debt securities and equity instruments at fair value through other comprehensive income. The table below offers a breakdown of the different types of securities that included under the balance of this item:

	Thousands of euros	
	2019	2018
Equity instruments	1	(328)
Debt instruments	25,899	(57,537)
	25,900	**(57,865)**

b) *Cash flow hedges*

This item reflects the portion of the net change in value of financial derivatives designated as cash flow hedging instruments determined to be an effective hedge (see Note 10).

24. Own funds

The item "Own funds" in the accompanying statement of financial position reflects equity contributions made by shareholders (see Note 25), retained earnings recognised through profit or loss and other equity instruments of a permanent nature.

Changes in the different line items under this item of the statement of financial position for the years ended 31 December 2019 and 2018 are shown in the accompanying "Statement of changes in equity".

a) *Share premium*

The Consolidated Spanish Companies Law expressly allows the use of the share premium to increase capital, and does not set any specific restriction on its availability.

b) *Equity instruments issued other than capital*

Dated 24 September 2018, ABANCA Corporación Bancaria, S.A. laid down the economic terms for an issue of €250,000 thousand in perpetual bonds, the principal amount of which may eventually be reduced, as a bail-in tool. Perpetual bonds were issued at par value and will bear a fixed annual interest payable quarterly in arrears and subject to review throughout the bond issue life. Interest will be 7.5% p.a. until 2 January 2023; thereafter the interest rate will be reviewed every fifth year by applying a 7.326% spread on 5-year Mid-Swap Rate. In any case, payment of interest is subject to certain conditions and, additionally, is at the issuer's discretion.

These bonds are perpetual, subject to the Entity's option to redeem them under certain circumstances. Additionally, the principal amount of each perpetual bond may be temporarily reduced down to €0.01 in the event that ABANCA or ABANCA Group common equity tier 1 (CET1), calculated pursuant to the provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms ("Regulation 575/2013) should at any time fall below 5.125%.

The issue was exclusively addressed to professional customers and eligible counterparties.

This issue was paid up and closed on 2 October 2018 and was subsequently admitted to trading in AIAF Fixed-income Market.

The competent Supervisory Authority has authorised classification of this issue of perpetual bonds as tier 1 capital.

The payment of the dividend associated to these instruments is recognised in equity under "Other reserves".

c) Legal reserve

In accordance with article 274 of the Consolidated Spanish Companies Law, companies that generate a profit for the period are required to transfer 10% of that profit to a legal reserve until such reserve reaches an amount equal to at least 20% of share capital. The legal reserve may be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase. Except for the aforementioned purpose, unless the legal reserve exceeds 20% of the share capital, it may only be used to offset losses if no other reserves are available. At 31 December 2019 and 2018, the Bank has appropriated to this reserve the minimum amount required by law.

25. Capital

At 31 December 2019 and 2018, the Bank's share capital totalled €2,453,657 thousand, divided into 2,453,657,413 shares with a par value of €1 each, all subscribed and fully paid up and with the same voting and profit-sharing rights.

The shareholders of the Bank at 31 December 2019 and 2018 are as follows:

Shareholders	Percentage of Interest	
	2019	2018
Juan Carlos Escotet Rodriguez	77.76%	–
Other shareholders	13.47%	4.42%
Treasury shares	8.77%	8.79%
ABANCA Holding Financiero, S.A. (*)	–	86.79%
	100.00%	**100.00%**

(*) *Company absorbed by ABANCA Corporación Bancaria, S.A. (see Note 1.1).*

The Bank's shares are not listed on the stock exchange.

Treasury shares

At 31 December 2019, the breakdown of treasury shares held by the Bank is as follows:

	No. of Shares	Nominal amount (Thousands of euros)	Average purchase price (euros)	Total acquisition cos (Thousands of euros)
Treasury shares	215,259,508	215,260	1.0709	230,541

At 31 December 2018, the breakdown of treasury shares held by the Bank was as follows:

	No. of Shares	Nominal amount (Thousands of euros)	Average purchase price (euros)	Total acquisition cos (Thousands of euros)
Treasury shares	215,561,636	215,562	1.0657	229,727

At the date of authorisation for issue of these financial statements, the Board of Directors has not reached a decision on the final use to which the aforementioned treasury shares will be put.

Solvency disclosure

At 31 December 2019 and 2018, the capital ratios determined pursuant to the provisions 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 (CRD IV), of Regulation (EU) 575/2913 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) and the corresponding implementing legislation, were as follows:

Capital ratios	31.12.2019	31.12.2018
Eligible Common Equity Tier 1 capital (thousands of Euros) (a)	3,787,791	3,919,227
Eligible Additional Tier 1 capital (thousands of Euros) (b)	250,000	250,000
Eligible Tier 2 capital (thousands of Euros) (c)	650,824	1,918
Exposure (thousands of Euros) (d)	30,598,207	26,896,536
Common Equity Tier 1 capital ratio (CET 1) (A)=(a)/(d)	12.38%	14.57%
Additional Tier 1 capital ratio (AT1) (B)=(b)/(d)	0.82%	0.93%
Tier 1 capital ratio (Tier 1) (A)+(B)	13.20%	15.50%
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	2.13%	0.01%
Total capital ratio (A)+(B)+(C)	15.32%	15.51%

Leverage	31.12.2019	31.12.2018
Tier 1 capital (thousands of Euros) (a)	4,037,791	4,169,227
Exposure (thousands of Euros) (b)	59,762,676	52,647,977
Leverage ratio (a)/(b)	6.76%	7.92%

Based on the definition of “Distributable items” contained in article 4, paragraph 1, point 128 of CRR, at 31 December 2019 ABANCA Corporación Bancaria, S.A.’s “Distributable items” totalled €1,394,418 thousand (€1,398,611 thousand 31 December 2018).

26. Taxation

26.1. Tax consolidation

The Bank benefits, for financial years starting on or after 1 January 2015, from the tax consolidation regime regulated under Title VII, Section VII of law 27/2014, of 27 November, on Corporate Income Tax (hereinafter, "CIT"). ABANCA Holding Financiero, S.A. is the parent of the tax group.

Subsidiaries of the Consolidated Tax Group are those companies meeting the requirements defined thereto in the regulatory framework on taxation of consolidated earnings of Groups of Companies. At the 2019 reporting date, the Consolidated Tax Group, which has been assigned number 343/15, includes the following companies:

Subsidiaries	T.I.N.
ABANCA Corporación Bancaria, S.A.	A-70.302.039
ABANCA Corporación Industrial y Empresarial, S.L.U.	B-15.125.057
ABANCA Corporación, División Inmobiliaria, S.L.U.	B-70.193.321
ABANCA Gestión Operativa, S.A.	A-15.126.923
ABANCA Invest, S.L.	B-70.506.654
ABANCA Mediación Correduría de Seguros Generales, S.A.	A-15.232.135
ABANCA Mediación Operador de Banca-Seguros Vinculado, S.L.	B-70.049.630
ABANCA Financial services EFC, S.A.	A-28.197.036
ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.	A-15.140.387
Complejo Residencial Marina Atlántica S.L.	B-36.968.071
Corporación Empresarial de Representación Participativa, S.L.	B-79.526.679
Corporación Empresarial de Tenencia de Activos de Galicia, S.L.	B-70.040.548
Corporación Empresarial y Financiera de Galicia, S.L.U.	B-83.520.643
Espacios Termolúdicos, S.A.	A-15.945.793
Jocai XXI, S.L.U.	B-15.939.689
Natur-Hotel Spa Allariz, S.A.	A-32.277246
Quaere Investment, S.L.	B.70.485.651
Torre de Hércules Participaciones Societarias, S.L.	B-83.803.213
Torres del Boulevar, S.L.U.	B-18.721.043
Vibarco, S.L.U., Sociedad Unipersonal	B-27.720.085

From 2011 to 2014, the Bank benefited from the tax consolidation regime regulated under Title VII, Chapter VII of the Recast Corporate Income Tax Law enacted through Royal Legislative Decree 4/2004, of 5 March (hereinafter RCITL), as the parent of consolidated tax group no. 595/11. This Group ceased to exist when the ABANCA Holding Financiero, S.A. Group acquired control of this entity.

In compliance with the provisions of ICAC Resolution of 9 February 2016, the provision for income tax for the reporting period is calculated on the basis of accounting profit or loss, which is not necessarily the same as the taxable income/tax loss, and based on the balances of payables and receivables accrued between companies in the Consolidated Tax Group.

The fact that the Tax Group to which the Bank belongs files consolidated income tax returns does not mean that the income tax accrued differs greatly from the tax that would arise in the event of individual taxation. As such, in calculating the provision for this tax, there is no mention of the permanent or temporary differences stemming from the tax consolidation process.

The Bank files VAT returns as a Group subsidiary under the special regime set forth in Title IX, Chapter IX of Law 37/1992, of 28 December, which regulates this tax, with ABANCA Holding Financiero, S.A. as the parent.

26.2. Reconciliation of accounting profit with taxable income

The reconciliation of the Bank's accounting profit for 2019 and 2018 with its Corporate Income Tax taxable income is as follows:

	Thousands of euros	
	2019	2018
Profit/(loss) for the year	359,425	369,867
Income tax	22,736	7,428
Profit/(loss) before tax	382,161	377,295
Permanent differences	(215,540)	(725,474)
Temporary differences		
Originating in the reporting period	112,335	471,687
Originating in the prior periods (net)	(135,408)	(28,401)
Tax base	**143,548**	**95,107**
Tax loss carryforwards	**(35,887)**	**(23,777)**
Tax base for the reporting period	**107,661**	**71,330**

When reconciling the accounting profit or loss for 2019 with the taxable income for the year, consideration has been given to the limits applicable for integrating into taxable income any charges that give rise to deferred taxes, as referred to in article 12.11 of the CIT Law, and to the application of tax loss carryforwards from prior periods, as referred to in transitional provision 36 and in additional provision 15 of the aforementioned Law.

26.3. Taxes recognised in equity

Irrespective of income tax charged to the statement of profit or loss, in 2019 and 2018 the Banks has included the tax effect of applying Bank of Spain Circular 4/2017 in connection with measurement of fixed-income and equity securities measured at fair value through other comprehensive income, measurement of derivatives designated as cash flow hedges, and other non-material items, which in 2019 resulted in a tax expense of €48,530 thousand recognised directly in equity (tax income of €33,930 thousand in 2018) (see the "Statement of other comprehensive income").

26.4. Deferred tax

a) temporary differences

Due to the different recognition criteria applied to certain income and expenses for accounting and tax purposes, deferred tax assets and liabilities have arisen in connection with future deductible and taxable temporary differences, respectively.

The breakdown of the Bank's deferred tax assets and deferred tax liabilities at 31 December 2019 and 2018 is shown below:

	Thousands of euros			
	2019		2018	
	Tax assets - deferred	Tax liabilities - deferred	Tax assets - deferred	Tax liabilities - deferred
Amortisation of goodwill arising from BNP offices	899	–	1,337	–
Allowance for pension fund (net)	82,139	–	69,999	–
Credit loss and impairment allowances	2,387,819	–	2,378,893	–
Allocation of loan commissions	53	–	230	–
Fixed-income and equity portfolios valuation adjustments	1,591	(13,434)	44,635	(18,923)
Adjustments arising from foreign branches	28,931	–	27,813	–
Accelerated depreciation and amortisation Royal Decree-Law 3/1993	–	(75)	–	(74)
Depreciation and amortisation of revalued assets	–	(15,740)	–	(16,004)
Tax credits	4,911	–	17,317	–
Tax loss carryforwards	744,017	–	732,925	–
Other	43,431	(17,050)	18,707	(4,091)
Total	**3,293,791**	**(46,299)**	**3,291,856**	**(39,092)**
Recognised in the statement of financial position	**2,807,995**	**(46,299)**	**2,772,735**	**(39,092)**

Deferred tax liabilities include the tax effect of the revaluation of properties carried out in 2004 to adjust them to their fair value at that date. This revaluation was carried out in 2005, but was presented in the statement of financial position at 31 December 2004 through an accounting entry for first-time application of Circular 4/2004.

Royal Decree-Law 14/2013, of 29 December

Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions was published in the Official State Gazette ("BOE") on 30 November 2013. Effective 1 January 2014, this Royal Decree-Law appends additional provision twenty-two to the Recast Corporate Income Tax Law, which was approved by Royal Legislative Decree 4/2004, of 5 March, and provides for the conversion of deferred tax assets into receivables from the taxation authorities.

By virtue of the aforementioned article, deferred tax assets corresponding to provisions for impairment of receivables or other assets stemming from possible insolvencies of debtors not related to the taxpayer, providing that they are not subject to article 12.2.a) of the Recast Corporate Income Tax Law, as well as those stemming from the application of articles 13.1.b) and 14.1.f) thereof corresponding to provisions for or contributions to social welfare systems and, where appropriate, early-retirement schemes, shall be converted into a receivable from the taxation authorities, in any of the following circumstances:

The taxpayer recognises accounting losses in its audited financial statements authorised for issue by the appropriate governing body. In such cases, the amount of deferred tax assets to be converted is determined by multiplying the total amount thereof by the accounting losses for the period as a percentage of total capital and reserves.

The entity is in liquidation or has been legally declared insolvent.

The conversion of deferred tax assets into a receivable from the taxation authorities, as described, means that the taxpayer may choose to request payment from the taxation authorities, or offset the receivables against other taxes payable to central government generated by the taxpayer as of the conversion date.

In addition, these deferred tax assets may be exchanged for public debt securities, once the statutory period for offsetting tax loss carryforwards has expired, calculated as of the recognition date of these assets.

In the same regulations, albeit effective retrospectively as of tax periods beginning on or after 1 January 2011, a new section 13 has been added to article 19 of the Recast Corporate Income Tax Law on the timing of recognition, for the purposes of determining the corporate income tax base.

By virtue of the aforementioned new section 13 of article 19 of the Recast Corporate Income Tax Law, the provisions for impairment of receivables or other assets stemming from possible insolvencies of debtors not related to the taxpayer (including those resulting from Royal Decree-Law 2/2012, Royal Decree-Law 18/2012 and Royal Decree 1559/2012 by virtue of the request for a binding ruling filed with the Directorate-General for Taxation), provided they are not subject to article 12.2.a) of the Recast Corporate Income Tax Law, as well as those resulting from application of articles 13.1.b) and 14.1.f) thereof corresponding to provisions for or contributions to social welfare systems and, where appropriate, early-retirement schemes, that have generated deferred tax assets, shall be integrated into the tax base, up to the limit of taxable income prior to their integration and to the offset of tax loss carryforwards.

In light of this new criterion for the timing of recognition, the Bank recalculated the corporate income tax bases for 2011 and 2012, which differ from the bases originally filed within the voluntary period, thus generating new tax bases that were duly notified to the taxation authorities.

Act 27/2014, of 27 November, on Corporate Income Tax (CIT Act)

The regime for conversion of deferred tax assets into a receivable from the taxation authorities, set out in article 130 of the CIT Law in force since 1 January 2015, is identical to that described above. Transitional provision 33 of the CIT Law establishes a conversion regime for deferred tax assets generated in tax periods beginning before 1 January 2016, by introducing a financial contribution that will result in an annual payment of 1.5% to maintain the right to monetize, applicable to the portion of deferred tax assets that meets the legal requirements to be considered as monetizable assets generated before 2016.

Title IV, Chapter III of the Corporate Income Tax Regulations approved by Royal Decree 634/2015 of 10 July (hereinafter the CIT Regulations), develops the procedure for the offset and collection of receivables from the taxation authorities.

As a result of applying the above mentioned regulation, the Tax Group has estimated the deferred tax assets to be recognised by the different Group companies at 31 December 2019. The deferred tax assets identified for the Bank amount to €2,135,396 thousand (€2,108,516 thousand at 31 December 2018), and deferred tax assets identified at Group level in 2019 amount to €2,687,488 thousand (€2,646,332 in 2018). Pursuant to the CIT Law, these deferred tax assets are eligible for monetisation and recovery thereof is therefore ensured through the mechanisms therein set forth. In 2015 Spain completed the regulation of monetizable tax assets.

In 2019, the expense arising as a result of the estimates made at the end of the period and the application of the aforementioned regulation amounted to €22,736 thousand and was recognised under "Income tax expense or income related to profit or loss from continuing operations" in the accompanying statement of profit or loss for the year (€7,428 thousand in 2018). The amount recognised is the result of applying the current tax rate (30%) to the tax base as it is considered a tax asset that arises from amendment of the applicable tax regulations rather than from a contractual agreement between the parties. The balance shown under "Income tax expense or income related to profit or loss from continuing operations" on the statement of profit or loss includes the amount relating to the adjustment of expenses from prior years; foreign taxes of a nature similar to Spanish corporate income tax; and, the above-mentioned financial contribution.

The breakdown of deferred tax assets recognised in the statement of financial position at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deferred tax assets qualifying for monetisation:		
On credit loss	2,068,553	2,046,176
On pensions	66,843	62,340
Subtotal: Balance of deferred tax assets qualifying for monetisation	**2,135,396**	**2,108,516**
Deferred tax assets non qualifying for monetisation:		
Fixed-income and equity portfolios valuation adjustments	1,591	44,635
On business plan	638,143	599,415
On deferred tax assets with similar reinvestment deadline	32,865	20,169
Subtotal: Balance of deferred tax assets not qualifying for monetisation	**672,599**	**664,219**
Total deferred tax assets recognised	**2,807,995**	**2,772,735**

As previously stated, part of the deferred tax assets are payable by the taxation authorities in the aforementioned circumstances (assets convertible into receivables, or deferred tax credits). According to the above table, this portion amounts to €2,135,396 thousand at 31 December 2019 (€2,108,516 thousand at 31 December 2018). Recoverability is not dependent on future taxable profit, so the recognition thereof is justified in the aforementioned cases.

The Bank recognises deferred tax assets inasmuch as their future recovery is deemed probable based on existing forecasts of future taxable profits. The overwhelming majority of these tax assets stem from losses that arose in 2012 and 2013 as a result of identifiable factors that are unlikely to be repeated (essentially the property development business, which shrank into insignificance following its transfer to Sareb). In 2014, 2015, 2016, 2017, 2018 and 2019, the Bank reported profits. The business plan depicts a scenario in which taxable profits are generated, enabling the recovery of these tax assets. This plan, which was approved by the directors, has been updated to reflect the events of 2019 and the changes observed in certain parameters during the period. The plan considers a five-year period (2020 to 2024), at the end of which the Group would achieve a return on equity of approximately 11.6%. Based on a long-term forecast of estimated growth spanning 18 years, profits are expected to rise at a constant rate in subsequent years. This estimate, like any other estimate based on an assumption, is subject to amendment for future events, which could prospectively affect the value of net tax assets recognised by the Group.

Based on this analysis of future capacity to generate taxable profits, the Bank has recognised deferred tax assets not convertible into receivables amounting to €672,599 thousand at 31 December 2019 (€664,219 thousand at 31 December 2018), which are in addition to the aforementioned assets convertible into receivables (deferred tax credits) of €2,135,396 thousand (€2,108,516 thousand at 31 December 2018).

Law 48/2015, of 29 October, on General State Budget for 2016

Law 48/2015, of 29 October, on General State Budget for 2016 changed, effective for tax periods starting on or after 1 January 2016, the applicable provisions to determine the conversion of deferred tax assets into tax credits receivable from Tax Authorities in the above-stated terms, and introduced new eligibility conditions and certain disclosure obligations relating to deferred tax assets affected by the new regulations. Furthermore, the Law introduced a transitional arrangement applicable to deferred tax assets originated prior to 1 January 2016, under which and subject to certain conditions being met, entities could retain the right to conversion, although subject to payment of the financial contribution of the new thirteenth additional provision of CIT Law.

The balance shown under "Income tax expense or income related to profit or loss from continuing operations" in the accompanying statement of profit or loss includes the amount of the above-mentioned financial contribution, amounting to €32,448 thousand in 2019 (€33,500 thousand in 2018).

Royal Decree-Law 27/2018, of 28 December

Pursuant to the Transitional Provision 39 of CIT Law, as amended by Royal Decree-Law 27/2018, of 28 December, on the adoption of certain tax and cadastral measures, any charges and credits to reserve accounts, that respectively qualify as expenses or income to the extent that they have tax effects pursuant to the provisions of said Law as a result of first-time application of Bank of Spain Circular 4/2017, of 27 November, will be included, in equal parts, in the respective tax bases of the first three tax periods starting after 1 January 2018.

In compliance with the provisions of the last paragraph of said Transitional Provision 39, the amounts already included in the tax base and the amounts yet to be included in the relevant tax bases of each tax periods are disclosed below:

Financial year	Thousands of euros	
	Amount included (net)	Amount yet to be included (net)
2018	(1,211)	(2,422)
2019	(1,211)	(1,211)
2020	(1,211)	–
Total	(3,633)	(3,633)

b) Tax credits: Tax loss carryforwards

Pursuant to the provisions of the Recast Corporate Income Tax Law and of Law 27/2014 on Corporate Income Tax, at 31 December 2019 and 2018, after calculating the corporate income tax provision, the Bank has unused cumulative individual tax loss carryforwards of €2,480,057 thousand and €2,443,084 thousand, respectively.

At the end 2019, the balance of tax loss carryforwards pending application results from the entitlement to off-set tax loss carryforwards generated by the Consolidated Group relating to the Bank on an individual basis that, pursuant to the rules of Article 81 of CCIT Law, arose from the extinction of Tax Group No. 595/11 in 2014, and from tax loss carryforwards included in the provision estimated for financial year 2019.

c) Deductions

Following calculation of the provision for corporate income tax, at 31 December 2019 the Bank has deductions available for offset on an individual basis in future years, within the time and quantitative limits set out in the tax regulations, amounting to €4,911 thousand (€17,317 thousand in 2018).

26.5. Other relevant tax information

a) Economic Interest Groupings (EIG)

The Bank forms part of several Economic Interest Groupings (EIG) which, in compliance with current tax regulations, allocate positive or negative tax bases, tax withholdings and tax credits to the members according to their respective ownership interest. The ownership interest in the aforementioned EIGs has not been taken into account with a view to reducing the income tax expense in either 2019 or 2018.

On 17 July 2013, the European Commission issued a press release announcing the decision on state aid granted to certain Economic Interest Groupings (EIG) and their investors and the compatibility with European regulations on state aid. The main consequences of the press release were that the tax lease system in force for Spanish shipyards between 2002-2011 was incompatible with EU regulations on state aid; the beneficiaries of the aid were only the investors and the Commission stipulates that the Spanish authorities are responsible for determining what portion of the aid is to be recovered for each EIG and its investors.

On 17 December 2015, the Seventh Chamber of the General Court annulled Decision 2014/200/EU, considering that as there are no financial advantages for EIGs, the Commission's conclusion that these entities had been recipients of state aid was incorrect, as only the investors benefited from the tax and financial advantages of the tax regime. Furthermore, the Court considered that the Commission was wrong to state that there was a selective advantage and, therefore, state aid in favour of the EIGs and the investors.

This annulment has been appealed by the European Commission. The Bank considers that the possibility of the appeal being upheld is remote, and has therefore decided not to recognise this provision.

b) Operations undertaken during the year pursuant to Title VII, Chapter VII of the CIT Law

At 31 December 2019, the Company had neither officially completed nor registered any corporate restructuring operation under the special regime of tax neutrality regulated in Title VII, Chapter VII of CIT Law (Title VII, Chapter VIII in the Recast Corporate Income Tax Law for financial years prior to 2015) relating to the reporting period.

The information relating to any corporate restructuring operations the Bank may officially complete and register after 1 January 2020 will be disclosed in the notes for that reporting period.

b) Operations undertaken during the year pursuant to Title VII, Chapter VIII of the CIT Law

In prior financial years the Group completed several corporate restructuring operations under the special regime of tax neutrality regulated in Title VII, Chapter VII of CIT Law (Title VII, Chapter VIII in the Recast Corporate Income Tax Law for financial years prior to 2015). The information on the operations involving the Bank, either on its own behalf or in the capacity of successor of other entities, is provided below. It should be noted that, where information is provided in aggregate form, the relevant information is available in disaggregated for every asset at the registered address of each company required to disclose:

Originating Entity	Operation completed	Financial year	Thousands of euros Fair Amount of Securities Delivered	Thousands of euros Carrying Amount of Securities Received
Caixanova	Non-monetary contribution of Raminova Inversiones, S.L.	2006	10,150	10,150
Caixanova	Non-monetary contribution of Viñainvest, S.L.	2006	2,397	2,201
Caixanova	Non-monetary contribution of Inversiones Prethor, S.L.	2006	6,497	3,713
Caixanova	Non-monetary contribution of Grupo T Solar Global, S.A.	2008	850	850
Caixanova	Split-off of Vibarco, S.A.	2008	5,186	5,186
Caixanova	Merger of Sivsa Soluciones Informáticas, S.A.	2008	–	–
Caixa Galicia	Non-monetary contribution of assets, 29/12	2008	308,919	308,919
Caixanova	Non-monetary contribution of Filmanova Invest, S.A.	2009	326	326
Caixanova	Split-off of Centro de Atención de Llamadas, S.A.	2009	91	91
Caixa Galicia	Non-monetary contribution of assets, 29/06	2009	116,306	116,306
Caixa Galicia	Non-monetary contribution of assets, 28/12	2009	131,870	131,870
Caixanova	Non-monetary contribution of Vinum Terrae, S.L.	2010	2,665	2,665
Caixagalicia-Caixanova	Merger by creation of Novacaixagalicia	2010	–	–
Novacaixagalicia	Segregation of financial business in favour of NG Banco, Sociedad Anónima	2011	1,084,188	1,084,188
NCG Banco	Merger by absorption of Financiera Inmobiliaria Proinova, S.L.U. with and into NCG División Grupo Inmobiliario, S.L.	2011	–	–
NCG Banco	Non-monetary contribution of assets, 6/09	2011	154,561	154,561
NCG Banco	Non-monetary contribution of interests in investees 29/10	2012	421,296	421,296
NCG Banco	Merger of ABANCA División Gupo Inmobiliario, S.L.U. and CXG Grupo Inmobiliario Corporación Caixagalicia, S.L.U.	2012	–	–
NCG Banco	Partial split-off of ABANCA Corporación Industrial, S.L.	2012	170,367	170,367
NCG Banco	Non-monetary contribution of interests in investees 29/06	2012	1,130,657	1,130,657
NCG Banco	Non-monetary contribution of interests in investees 29/06	2012	44,758	44,758
NCG Banco	Non-monetary contribution of assets, 17/4	2012	203,765	203,765
NCG Banco	Non-monetary contribution of assets, 20/5	2013	19,726	19,726
NCG Banco	Contribution of EVO Banco business unit	2013	110,000	110,000
NCG Banco	Transfer of bank branches business to Banco Etcheverría	2013	–	–
ABANCA	Merger with Banco Etcheverría	2014	–	–
ABANCA	Merger of Grupo Vinum	2014	–	–
ABANCA	Non-monetary contribution of interests in investees	2015	72,056	72,056

The disclosures required by the Recast Corporate Income Tax Law and by Article 86 of the new Corporate Income Tax Law are included in the notes to the financial statements of each company for those periods.

d) Article 135 of the Recast Corporate Income Tax Law - Accounting revaluations-

Pursuant to the provisions of article 135 of Royal Legislative Decree 4/2004, of 5 March, which approved the Recast Corporate Income Tax Law (current Article 122 CIT Law), it is hereby stated that Caixa Galicia revalued part of its tangible assets in order to adjust them to fair value at 1 January 2004. This revaluation was not reflected in the corporate income tax base. The revaluation was carried out in 2005 but was recognised in the statement of financial position at 31 December 2004 through an accounting entry for first-time application of Circular 4/2004.

The revaluations amounted to €168,096 thousand, as detailed below:

Affected assets	Amount (Thousands of euros)
Buildings for own use	157,008
Rented buildings	11,008
Total	**168,096**

e) Tax periods open to inspection

At 31 December 2019 the Bank has open to inspection by the taxation authorities all main applicable taxes for the last four tax periods in accordance with article 66 et seq. of the General Tax Law 58/2003, of 17 December.

In 2019, as a result of the tax inspection carried out by the taxation authorities, tax assessments were raised for periods up to 2015 inclusive, all of which were signed on an uncontested basis and declared final in 2019. The amounts involved in those assessments are not material for the understanding of the financial statements taken as a whole.

Due to the different possible interpretations of tax regulations, the results of any tax inspections performed by the taxation authorities for the years subject to verification could give rise to contingent tax liabilities that cannot be objectively quantified. Nevertheless, the board of directors considers that any tax liabilities that might arise would not significantly affect these financial statements.

27. Financial guarantees, loan commitments and other commitments granted

27.1. Financial guarantees granted y other commitments granted

Financial guarantees are the amounts that would be payable by the Bank on behalf of third parties as a result of the commitments undertaken by those entities in the ordinary course of business, if the parties who are originally liable for payment fail to do so.

The breakdown of the maximum risk assumed by the Bank in respect of financial guarantees at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2018	2018
Bank guarantees and other indemnities	1,189,197	970,554
Irrevocable documentary credits	64,872	92,124
Credit derivatives sold	237,022	210,451
Other documentary credits	52,364	43,286
Other contingent commitments	125,473	95,131
Other	99,116	121,311
	1,768,044	**1,532,857**

A significant portion of these amounts will expire without generating any payment obligations for the Bank. The total balance of these commitments can therefore not be considered an actual requirement for future financing or cash to be extended to third parties.

Income from guarantees is recognised under “Fee and commission income” and “Interest income” in the statement of profit or loss, at the restated value of the fees and commissions. The income is calculated by applying the interest rate for the guaranteed contract to the nominal amount of the associated guarantee.

Provisions made to secure the guarantees extended, which have been calculated using criteria similar to those used to calculate impairment of financial assets at amortised cost, are recognised under "Provisions – Commitments and guarantees extended" (see Note 21.b).

At 31 December 2019 the Bank has guarantees extended by third parties amounting to €48,366 thousand (€46,515 thousand at 31 December 2018).

27.2. Assets pledged as collateral

At 31 December 2019, the carrying amount of the Bank's financial assets pledged as collateral for certain liabilities or contingent liabilities assumed by the Bank totals €6,047,699 thousand (€7,036,138 thousand at 31 December 2018) (see Notes 7 and 9).

27.3. Loan commitments granted

At the end of 2019 and 2018, the amounts available under the financing contracts extended by the Bank are shown below:

	Thousands of euros	
	2019	2018
Immediately available:		
Credit cards	1,512,100	1,246,234
General government sector	1,061,425	495,737
Other sectors	1,873,307	1,465,314
	4,446,832	3,207,285
Available subject to conditions:		
General government sector	11,192	32,655
Other sectors	2,912,982	2,302,914
	2,924,174	2,335,569
	7,371,006	5,542,854

Provisions made to secure these contingent commitments, which have been calculated using criteria similar to those used to calculate impairment of financial assets at amortised cost, are recognised under "Provisions – Commitments and guarantees extended" (see Note 21.b).

At 31 December 2019 and 2018 the breakdown of off-balance sheet customer funds managed by the Group is as follows:

	Thousands of euros	
	2019	2018
Investment funds (*)	6,313,590	3,757,360
Pension funds	1,531,973	1,372,026
Securities deposited by third parties (**)	5,243,506	4,094,138
Insurance products	1,536,643	1,241,418
	14,625,712	10,464,942

(*) At 31 December 2019, the guaranteed value of the secured funds issued by the Bank totals €630,644 thousand (€644,163 thousand at 31 December 2018).

(**) At 31 December 2019, this item includes structured products amounting to €680,354 thousand.

27.4. Assets received as collateral

At 31 December 2019 and 2018, the breakdown of assets received as collateral for loans over which the Bank has the powers of disposal is as follows:

	Thousands of euros	
	2019	2018
Customer deposits pledged	836,036	840,200
Customer securities pledged	538,102	537,902
Investment funds shares/units pledged	41,355	34,081
	1,415,493	1,412,183

28. Interest income

This item comprises the interest accrued in the period on financial assets with an implicit or explicit return, calculated by applying the effective interest rate method, irrespective of measurement at fair value; and the rectification of income originating from hedge accounting.

The breakdown of the most significant sources of interest income accrued by the Bank during the annual periods ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deposits in central banks	13,533	13,060
Deposits in credit institutions	17,071	13,718
Loans and advances to customers	616,694	538,935
Debt securities	71,710	99,348
Non-performing assets	38,135	47,009
Rectification of income originating from accounting hedges (Note 10)	(26,779)	(33,724)
Other income	10,500	12,498
	740,864	690,844

The breakdown of the amounts recognised under "Interest income" in the accompanying statements of profit or loss for 2019 and 2018, by portfolio of financial instruments that originated them, is shown below:

	Thousands of euros	
	2019	2018
Financial assets at fair value through other comprehensive income	39,217	91,093
Financial assets at amortised cost	721,068	625,565
Financial assets held for trading	–	–
Rectification of income originating from accounting hedges (Note 10)	(26,779)	(33,724)
Other income	7,358	7,910
	740,864	**690,844**

29. Interest expense

This item reflects the interest accrued in the period on financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest rate method, irrespective of measurement at fair value; the rectification of costs originating from hedge accounting; and the interest cost attributable to pension funds.

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Deposits from central banks	1,004	–
Deposits from credit institutions	34,121	25,668
Deposits from customers	139,548	156,505
Debt securities issued	23,478	32,018
Subordinated liabilities	24,263	–
Rectification of costs originating from accounting hedges (Note 10)	(12,934)	(20,938)
Cost attributable to pension funds created (Notes 2.12.1 and 21.a)	7,892	6,295
Other charges	2,196	1,811
	219,568	**201,359**

The breakdown of the amounts shown in the table above, by portfolio of financial instruments that originated them, is as follows:

	Thousands of euros	
	2019	2018
Financial liabilities at amortised cost	222,809	214,502
Rectification of costs originating from accounting hedges (Note 10)	(12,934)	(20,938)
Other costs	9,693	7,795
	219,568	**201,359**

30. Dividend income

This item comprises the dividends and payments on equity instruments deriving from profits generated by investees after the acquisition of the equity investment.

The breakdown, by portfolio, by nature of the financial instrument and by type of originating entity, of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Equity instruments classified as:		
Investments in subsidiaries, joint ventures or associates (Note 12)	93	679,754
Non-trading financial assets mandatorily at fair value through profit or loss (Note 8)	4,621	2,539
Financial assets at fair value through other comprehensive income (Note 8)	35	387
	4,749	682,680
Nature of capital instruments:		
Listed	222	2,573
Unlisted	4,527	680,107
	4,749	682,680
Originating entity:		
Subsidiaries (Note 12)	93	679,754
Other entities (Note 8)	4,656	2,926
	4,749	682,680

In 2018 the amount recorded under "Subsidiaries" in the foregoing table mainly related to the dividend out of unrestricted reserves, amounting to €431,687 thousand, and to the 2018 interim dividend, amounting to €248,000 thousand, paid by ABANCA Corporación Industrial y Empresarial, S.L.U. (see Note 12).

31. Fee and commission income

This item comprises the amount of fees and commissions accrued in the period, except those forming an integral part of the effective interest rate on financial instruments.

The breakdown of fee and commission income accrued by the Bank during the annual periods ended 31 December 2019 and 2018, broken down according to the main items that originated it, are as follows:

	Thousands of euros	
	2019	2018
Fee and commission income		
Arising from guarantees and contingent commitments	18,036	17,034
Arising from collection and payment services	92,756	80,374
Arising from exchange of foreign currencies and banknotes	478	459
Arising from non-banking services	60,010	42,935
Arising from securities services	5,449	3,759
Other	42,117	38,992
	218,846	**183,553**

32. Fee and commission expense

This item comprises the amount of all fees and commissions paid or payable accrued in the year, except those forming an integral part of the effective interest rate on financial instruments.

The breakdown of fee and commission expense incurred by the Bank during the annual periods period ended 31 December 2019 and 2018, classified according to the main sources thereof, is as follows:

	Thousands of euros	
	2019	2018
Fees and commissions assigned to other entities and correspondents	3,868	3,432
Other fees and commissions	21,093	16,032
	24,961	**19,464**

33. Gains or Losses on Financial Assets and Liabilities

This note groups together the following items of the statement of profit or loss: "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net"; "Gains or losses on financial assets and liabilities held for trading, net"; "Gains or losses on hedge accounting, net" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net".

"Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" includes the amount of gains or losses resulting from the derecognition of financial assets and liabilities measured at cost and amortised cost, as well as financial assets at fair value through other comprehensive income — except investments in subsidiaries, joint ventures and associates, and instruments classified as non-current assets and disposal groups held for sale.

"Gains or losses on financial assets and liabilities held for trading, net" include the amount of gains or losses on financial instruments held for trading, except those attributable to interest accrued applying the effective interest method.

"Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net" includes the amount of gains or losses on financial instruments in this category, except those attributable to interest accrued applying the effective interest method.

"Gains or losses on hedge accounting, net" includes the gains and losses arising from hedging instruments and from hedged items in fair value hedges, as well as the ineffective portion of cash flow hedges and hedges of net investments in foreign transactions recognised in profit or loss.

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	81,386	105,630
Gains or losses on financial assets and liabilities held for trading, net	(1,804)	781
Gains or losses on hedge accounting, net (Note 10)	(2,202)	(7,579)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	7,031	(21,239)
	84,411	77,593

The breakdown, by nature of the financial instruments that gave rise to these balances, of this item in the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Debt securities (Note 7)	79,206	107,863
Equity instruments (Note 8)	7,679	(22,048)
Derivatives	17	8
Other	(2,491)	(8,230)
	84,411	77,593

34. Other operating income

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Income from investment properties and operating leases (Note 13)	9,651	8,837
Other	14,220	29,176
	23,871	**38,013**

35. Personnel expenses

This item comprises all remuneration of permanent and temporary personnel on the payroll, irrespective of their functions or activity, accrued in the period for all items, including the current service cost in respect of pension schemes, remuneration based on own equity instruments and expenses capitalised as part of the value of assets.

The breakdown of "Personnel expenses" in the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Salaries and wages	241,542	225,972
Social Security contributions	62,324	54,070
Contributions to defined benefit pension plans (Note 21.a)	4,194	1,423
Contributions to defined contribution pension plans (Note 21.a)	8,402	150
Termination benefits (Note 21.a) (*)	3,647	7,000
Other personnel expenses	13,116	10,902
	333,225	**299,517**

(*) At 31 December 2019, €1,356 thousand relate to termination benefits paid by Banco Caixa Geral that have not implied changes under "Pension funds and other similar obligations" (see Note 21).

The Bank's average headcount in 2019 and 2018, distributed by professional category and gender, as well as the number of employees at 31 December 2019 and 2018, are as follows:

Financial year 2019

	Average number of employees			Number of Employees at 31.12.2019	
	Men	Women	Total	Men	Women
Senior Management	11	1	12	11	1
Managers and Technicians	1,775	1,455	3,230	2,012	1,634
Other clerical and commercial personnel	705	1,124	1,829	763	1,177
Auxiliary personnel	–	–	–	–	–
	2,491	2,580	5,071	2,786	2,812

Financial year 2018-

	Average number of employees			Number of Employees at 31.12.2018	
	Men	Women	Total	Men	Women
Senior Management	11	1	12	11	1
Managers and Technicians	1,674	1,367	3,041	1,677	1,388
Other clerical and commercial personnel	577	961	1,538	604	994
Auxiliary personnel	–	–	–	–	–
	2,262	2,329	4,591	2,292	2,383

At 31 December 2019 and 2018, the Bank had 75 and 66 employees, respectively, with a disability rating of 33% or above.

36. Other administrative expenses

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Property, fixtures and materials	19,896	22,796
Information technology	37,449	47,359
Advertising and publicity	31,276	27,402
Communications	15,887	14,624
Taxes	5,583	4,854
Outsourced administrative services	33,639	28,588
Legal expenses and attorney fees	3,769	3,342
Technical reports	12,329	7,782
Entertainment and personnel service expenses	6,550	4,529
Surveillance and security carriage services	5,656	5,465
Insurance premiums	2,695	2,046
Governing and control bodies	2,809	2,408
Other expenses	2,479	3,124
	180,017	174,319

Other information

KPMG Auditores, S.L., the auditor of the Bank's financial statements, invoiced fees for professional services during the years ended 31 December 2019 and 2018, as follows:

	Thousands of euros	
	2019	2018
Statutory audit services	884	210
Other assurance services	436	297
Other	–	7
Total services invoiced by KPMG Auditores, S.L.	**1,320**	**514**

Other assurance services mainly relate to limited audits of interim financial statements of both ABANCA Corporación Bancaria, S.A. and ABANCA Holding S.L., to the issue of comfort letters and to other regulatory services.

Other entities affiliated with KPMG International invoiced the Entity fees and expenses for professional services during the annual periods ended 31 December 2019 and 2018, as follows:

	Thousands of euros	
	2019	2018
Audit services	–	–
Tax advice services	9	–
Other services	232	469
	241	**469**

The amounts detailed in the above tables include the total fees for audit services rendered in 2019 and 2018, irrespective of the date of invoice thereof, while the fees for other services reflect services billed during 2019 and 2018.

In 2019, KPMG Auditores, S.L. has issued reports, other than the statutory audit reports, such as Limited Audit Reports on Consolidated Abbreviated Interim Financial Statements at 31 March, 30 June and 30 September 2019, the audit of the statement of financial position at 31 August 2019 and two comfort letters relating to the issue of Tier 2 capital subordinated bonds.

37. Other operating expenses

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Contribution to Deposit Guarantee Fund and Resolution Fund (Note 1.8)	60,488	53,451
Investment property expenses (Note 13)	2,500	2,529
Other	27,924	21,120
	90,912	**77,100**

The balance under “Other” in the table above includes expenses associated with deposit, taxes and to non-recurring services, such as the operational management of claims relating to floor clauses, etc.

38. Gains or losses on derecognition of non-financial assets, net

The breakdown of this item of the accompanying statements of profit or loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
On disposals of tangible assets	655	–
On disposal of investments in subsidiaries, joint ventures and associates (Note 12)	614	–
Other	(14,355	3,785
	(13,086	**3,785**

At 31 December 2019 and 2018 the balance under "Other" mainly relates to the gain generated on the sale of impaired loan portfolios derecognised from the statement of financial position (see Note 9.f).

39. Related Parties

The balances at 31 December 2019 and 2018 originating from transactions carried out by the Bank with related parties, as well as income and expenses arising therefrom in 2019 and 2018, are as follows:

At 31 December 2019 -

	Thousands of euros				
	Senior management and Board of Directors	Subsidiary companies	Associates	Joint Ventures	Other related parties
Assets:					
Deposits in credit institutions	–	96,325	–	–	35,040
Loans and advances to customers	3,832	1,189,197	122,830	–	14,742
Of which:					
Repayments, cancellations and recognitions during the period	*819*	*316,658*	*1,641*	–	*44,430*
Grants, drawdowns and derecognitions during the period	*368*	*390,463*	*41,515*	–	*38,392*
Other assets	–	–	–	–	6,373
Liabilities:					
Deposits from credit institutions	–	–	–	–	24,147
Deposits from customers	5,168	2,336,156	23,108	–	15,815
GAINS AND LOSSES:					
Debit:					
Interest expense	46	55,934	1	–	–
Fee and commission expense	–	6	4	–	–
Credit:					
Interest income	25	59,599	4,986	–	392
Fee and commission income	9	28,370	126	–	30
Off-balance sheet items	–	228,434	6,724	–	37,029

At 31 December 2018 -

	Thousands of euros				
	Senior management and Board of Directors	Subsidiary companies	Associates	Joint Ventures	Other related parties
Assets:					
Deposits in credit institutions	–	68,389	–	–	21,102
Loans and advances to customers	4,283	1,143,328	82,956	–	34,718
Of which:					
Repayments, cancellations and recognitions during the period	962	121,056	18,431	–	34,661
Grants, drawdowns and derecognitions during the period	1,113	326,952	54,856	–	42,032
Liabilities:					
Deposits from credit institutions	–	–	–	–	5,770
Deposits from customers	5,325	1,972,047	23,624	–	27,022
Other financial liabilities	–	–	–	–	–
GAINS AND LOSSES:					
Debit:					
Interest expense	84	45,317	1	–	2
Fee and commission expense	–	3	5	–	–
Credit:					
Interest income	28	48,084	2,780	–	856
Fee and commission income	11	23,667	313	–	94
Off-balance sheet items	–	254,732	14,203	–	66,777

The transactions set out in the previous sections were performed as part of the ordinary course of the Bank's business with its customers and under market conditions, although the conditions normally arranged with Bank employees were applied where appropriate.

"Other related parties" includes the balances of close relatives of Directors and members of Senior Management of the Bank (meaning, inter alia, spouses, ascendants, descendants and siblings of both spouses, as well as any companies controlled by these individuals or where these individuals exercise significant influence).

40. Segment reporting

40.1. Segmentation criteria

The lines of business described below have been defined on the basis of the organisational structure of the Bank, with the business structure divided into the following areas:

1. Retail banking: This encompasses the financial activity carried out with private individuals, companies and public entities, whether through the network of branches or through alternative distribution channels (Internet, Electronic Banking, Mobile Banking, etc.).

2. Wholesale banking: This basically includes treasury transactions and activity in financial markets (issues, fixed income and equities portfolio).

40.2. Basis and methodology used in compiling segment reporting

The segment reporting given below is based on the monthly reports drawn up from the information provided by a management control software application.

The structure of this information is designed as if each line of business were a separate business and the net interest and revenues of the lines of business are calculated by applying arm's length transfer prices to the corresponding assets and liabilities. Returns from the equity portfolio are distributed among the lines of business based on their respective percentage interest.

Administrative expenses include direct and indirect costs and are distributed among the lines of business and support service units on the basis of the internal use made of the services.

The assets distributed between the different business segments include assets held for trading, securities and loans and receivables from financial institutions and customers, net of the corresponding provision for losses. The liabilities distributed among the different business segments encompass debt securities issued and payables to financial institutions and customers.

40.3. Segment reporting

The following tables show segment reporting by business segment:

At 31 December 2019 -

	Thousands of euros		
	Retail banking	Wholesale banking	Total
Net interest income	**588,605**	**(67,309)**	**521,296**
Dividend income (Note 30)	–	4,749	4,749
Fee and commission income and expense (Notes 31 and 32)	193,885	–	193,885
Gains or Losses on Financial Assets and Liabilities (Note 33) (*)	–	84,411	84,411
Exchange differences	–	4,994	4,994
Other operating income and expenses (Notes 34 and 37)	(67,041)	–	(67,041)
Gross margin	**715,449**	**26,845**	**742,294**
Personnel expenses (Note 35)	(326,684)	(6,541)	(333,225)
Other administrative expenses, depreciation and amortisation	(246,025)	(6,150)	(252,175)
Provisions or reversal of provisions, and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, and modification net gains or losses	(68,217)	–	(68,217)
Net Operating Income	**74,523**	**14,154**	**88,677**
Impairment or reversal of impairment of investments in joint ventures or associates and non-financial assets	(2,841)	79,928	77,087
Gains or losses on derecognition of non-financial assets, net (Note 38)	(13,086)	–	(13,086)
Goodwill recognised in profit or loss (Note 2.22)	231,679	–	231,679
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(2,196)	–	(2,196)
Profit or loss before tax	**288,079**	**94,082**	**382,161**

(*) *Includes gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net; gains or losses on financial assets and liabilities held for trading, net; gains or losses on non-trading assets and liabilities mandatorily at fair value through profit or loss, net; and gains or losses on hedge accounting, net.*

	Thousands of euros		
	Retail banking	Wholesale banking	Total
Assets	37,698,088	21,273,461	58,971,549
Liabilities and Equity	41,351,789	17,619,760	58,971,549
Pooling	**(3,653,701)**	**3,653,701**	**–**

At 31 December 2018 -

	Thousands of euros		
	Retail banking	Wholesale banking	Total
Net interest income	**527,384**	**(37,899)**	**489,485**
Dividend income (Note 30)	–	682,680	682,680
Fee and commission income and expense (Notes 31 and 32)	164,089	–	164,089
Gains or Losses on Financial Assets and Liabilities (Note 33) (*)	–	77,593	77,593
Exchange differences	–	3,946	3,946
Other operating income and expenses (Notes 34 and 37)	(39,087)	–	(39,087)
Gross margin	**652,386**	**726,320**	**1,378,706**
Personnel expenses (Note 35)	(293,386)	(6,131)	(299,517)
Other administrative expenses, depreciation and amortisation	(204,523)	(5,279)	(209,802)
Provisions or reversal of provisions, and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, and modification net gains or losses	(30,785)	(2,784)	(33,569)
Net Operating Income	**123,692**	**712,126**	**835,818**
Impairment or reversal of impairment of investments in joint ventures or associates and non-financial assets	–	(470,168)	(470,168)
Gains or losses on derecognition of non-financial assets, net (Note 38)	3,785	–	3,785
Goodwill recognised in profit or loss	–	–	–
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	7,860	–	7,860
Profit or loss before tax	**135,337**	**241,958**	**377,295**

(*) Includes gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net; gains or losses on financial assets and liabilities held for trading, net; gains or losses on non-trading assets and liabilities mandatorily at fair value through profit or loss, net; and gains or losses on hedge accounting, net.

	Thousands of euros		
	Retail banking	Wholesale banking	Total
Assets	31,374,978	19,599,324	50,974,302
Liabilities and Equity	35,254,663	15,719,639	50,974,302
Pooling	**(3,879,685)**	**3,879,685**	**–**

41. Liquidity Risk of Financial Instruments

The Treasury and Capitals Market Department, based on guidelines issued by the Assets and Liabilities Committee, manages the liquidity risk inherent to the activity and to financial instruments, to ensure that there is sufficient liquidity at all times to meet the payment obligations associated with the maturities or settlements of liabilities, without compromising the Bank's capacity to swiftly respond to strategic opportunities in the market.

As regards liquidity risk, and pursuant to best practices, the board of directors is the body with ultimate responsibility for managing this risk, a task that it delegates to the Comprehensive Risk Commission with regard to supervising compliance with the control and review mechanisms of the policy, strategies and high-level limits of the liquidity risk, as well as coordination with the Bank's other risks. In this regard, the Bank has defined a series of measurements based on its risk profile, aimed at ensuring that the Bank at all times has a minimum proportion of liquid funds available to address unexpected liquidity outflows.

Liquidity risk management involves planning for resource requirements, paying special attention to the diversification of products, sources of funding, costs and periods of transactions. A diversified portfolio of liquid assets is maintained, which could be used as collateral in financing transactions or promptly enforceable transactions.

To manage the liquidity risk, the Bank uses a centralised approach, applying integrated software tools with which the analyses are performed. Notable among the techniques used are: i) analysis of available liquid assets and encumbered assets; ii) generation of regulatory and internal liquidity ratios; iii) monitoring of instruments arranged and their maturities; iv) stress test scenarios over different time horizons; v) control of intraday liquidity.

The position with regard to the Bank's liquidity risk is established based on an analysis of the situation at the outset and the projected situation. These analyses not only consider normal market conditions, but also extreme conditions that could arise and affect the value of the assets or the flow of the Bank's receipts and payments, due to various factors. The scenarios considered include systemic and idiosyncratic crisis scenarios and combined stress scenarios. Periodic and even daily monitoring is performed in normal scenarios under budgetary projections and under adverse stress scenarios that have evidenced the strength of the Bank's liquidity.

A breakdown, by maturity period, of the different items of the statement of financial position at 31 December 2019 and 2018 in a "normal market conditions" scenario is as follows:

At 31 December 2019 -

	Thousands of euros						
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total
ASSETS:							
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	3,072,362	763,614	8,373	179,404	–	–	4,023,753
Loans and advances to customers (Note 9)							
Financial assets at amortised cost	345,712	1,216,036	2,232,625	5,198,570	11,521,748	17,367,795	37,882,486
Non-trading financial assets mandatorily at fair value through profit or loss	–	–	–	–	–	–	–
Fixed income portfolio (Note 7)							
Financial assets held for trading	–	–	–	–	62,299	14,682	76,981
Financial assets at fair value through other comprehensive income	–	561,622	364,292	241,282	1,494,867	1,441,244	4,103,307
Non-trading financial assets mandatorily at fair value through profit or loss	–	–	–	–	–	29,314	29,314
Financial assets at amortised cost	–	–	–	–	4,014,800	1,880,951	5,895,751
Equity portfolio (Note 8)							
Financial assets at fair value through other comprehensive income	–	–	–	–	–	208	208
Non-trading financial assets mandatorily at fair value through profit or loss	–	–	–	–	–	38,180	38,180
Investments in subsidiaries, joint ventures and associates (Note 12)	–	–	–	–	–	2,129,102	2,129,102
Derivatives (Note 10)							
Financial assets held for trading	117,674	–	–	–	–	–	117,674
Derivatives - hedge accounting (Note 10)	53,087	–	–	–	–	–	53,087
Non-current assets and disposal groups classified as held for sale (Note 11)	130,443	–	–	–	–	–	130,443
Tangible assets (Note 13)	1,124,060	–	–	–	–	–	1,124,060
Intangible assets (Note 14)	126,614	–	–	–	–	–	126,614
Tax assets (Note 26)	–	–	–	–	–	2,899,477	2,899,477
Other assets (Note 15)	341,112	–	–	–	–	–	341,112
Total at 31 December 2019	5,311,064	2,541,272	2,605,290	5,619,256	17,093,714	25,800,953	58,971,549
LIABILITIES:							
Deposits from credit institutions and Central Banks (Note 16).	–	876,715	347,769	1,765,235	5,220,612	96,805	8,307,136
Deposits from customers (Note 17)	28,714,223	2,056,225	2,855,567	7,174,031	1,468,831	1,414,317	43,683,194
Debt securities issued (Note 18)	–	–	–	83,019	343,557	1,050,000	1,476,576
Other financial liabilities (Note 20)	198,143	–	–	–	–	–	198,143
Trading derivatives (Note 10)	116,544	–	–	–	–	–	116,544
Derivatives - hedge accounting (Note 10)	179,795	–	–	–	–	–	179,795
Provisions (Note 21)	375,354	–	–	–	–	–	375,354
Other liabilities and tax liabilities (Notes 22 and 26)	296,343	–	–	–	–	–	296,343
Equity (Notes 23, 24 and 25)	–	–	–	–	–	4,338,464	4,338,464
Total at 31 December 2019	29,880,402	2,932,940	3,203,336	9,022,285	7,033,000	6,899,586	58,971,549

At 31 December 2018 -

	Thousands of euros						
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total
ASSETS:							
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	1,103,434	1,100,169	340,221	23,803	200,000	–	2,767,627
Loans and advances to customers (Note 9)							
Financial assets at amortised cost	285,664	789,309	1,310,828	3,643,267	10,124,972	14,827,759	30,981,799
Non-trading financial assets mandatorily at fair value through profit or loss	699	–	–	–	–	–	699
Fixed income portfolio (Note 7)							
Financial assets at fair value through other comprehensive income	–	1,298,169	–	228,145	2,043,012	3,207,574	6,776,900
Non-trading financial assets mandatorily at fair value through profit or loss	–	–	–	–	–	28,925	28,925
Financial assets at amortised cost	–	–	–	–	–	3,868,852	3,868,852
Equity portfolio (Note 8)							
Financial assets at fair value through other comprehensive income	–	–	–	–	–	3,065	3,065
Non-trading financial assets mandatorily at fair value through profit or loss	–	–	–	–	–	116,644	116,644
Investments in subsidiaries, joint ventures and associates (Note 12)	–	–	–	–	–	2,039,026	2,039,026
Derivatives (Note 10)							
Financial assets held for trading	99,216	–	–	–	–	–	99,216
Derivatives - hedge accounting (Note 10)	31,087	–	–	–	–	–	31,087
Non-current assets and disposal groups classified as held for sale (Note 11)	133,321	–	–	–	–	–	133,321
Tangible assets (Note 13)	1,029,107	–	–	–	–	–	1,029,107
Intangible assets (Note 14)	11,318	–	–	–	–	–	11,318
Tax assets (Note 26)	–	–	–	–	–	2,814,254	2,814,254
Other assets (Note 15)	272,462	–	–	–	–	–	272,462
Total at 31 December 2018	**2,966,308**	**3,187,647**	**1,651,049**	**3,895,215**	**12,367,984**	**26,906,099**	**50,974,302**
LIABILITIES:							
Deposits from credit institutions and Central Banks (Note 16).	–	1,960,716	440,568	101,745	5,139,954	86,898	7,729,881
Deposits from customers (Note 17)	23,983,956	1,979,135	1,940,109	6,603,028	1,353,961	1,520,752	37,380,941
Debt securities issued (Note 18)	–	697,022	–	–	57,805	–	754,827
Other financial liabilities (Note 20)	84,232	–	–	–	–	–	84,232
Trading derivatives (Note 10)	72,716	–	–	–	–	–	72,716
Derivatives - hedge accounting (Note 10)	135,298	–	–	–	–	–	135,298
Provisions (Note 21)	322,872	–	–	–	–	–	322,872
Other liabilities and tax liabilities (Notes 22 and 26)	264,414	–	–	–	–	–	264,414
Equity (Notes 23, 24 and 25)	–	–	–	–	–	4,229,121	4,229,121
Total at 31 December 2018	**24,863,488**	**4,636,873**	**2,380,677**	**6,704,773**	**6,551,720**	**5,836,771**	**50,974,302**

These tables do not reflect the liquidity position of the Bank, inasmuch as demand accounts and deposits from customers, when the activity is typical of commercial banking, have been treated like any other liability payable on demand. Similarly, those assets forming part of the Bank's structure for which it is not possible to estimate their conversion date into liquid assets have been classified as "on demand". Considering this effect, the differences between assets and liabilities for each period fall within a reasonable range for the volumes of business managed.

42. Fair Value

The breakdown of the fair value of the Bank's financial assets and liabilities at 31 December 2019 and 2018, together with their respective carrying amounts at those dates, is as follows:

At 31 December 2019 -

	Thousands of euros	
	Carrying amount	Fair Value
Assets:		
Cash, cash balances with central banks, other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	4,023,753	4,023,753
Loans and advances to customers (Note 9)		
Financial assets at amortised cost	*37,882,486*	*41,331,591*
Non-trading financial assets mandatorily at fair value through profit or loss	–	–
Fixed income portfolio (Note 7)		
Non-trading financial assets mandatorily at fair value through profit or loss	*29,314*	*29,314*
Financial assets at fair value through other comprehensive income	*4,103,307*	*4,103,307*
Financial assets at amortised cost	*5,895,751*	*6,013,813*
Financial assets held for trading	*76,981*	*76,981*
Equity portfolio (Note 8)		
Non-trading financial assets mandatorily at fair value through profit or loss	*38,180*	*38,180*
Financial assets at fair value through other comprehensive income	*208*	*208*
Investments in subsidiaries, joint ventures and associates (Note 12)	2,129,102	2,129,102
Non-current assets and disposal groups classified as held for sale (Note 11)	130,443	130,443
Derivatives held for trading (Note 10)	117,674	117,674
Derivatives - hedge accounting (Note 10)	53,087	53,087
Liabilities:		
Deposits from Central Banks and credit institutions (Note 16)	8,307,136	8,393,863
Deposits from customers (Note 17)	43,683,194	44,232,676
Debt securities issued (Note 18)	1,476,576	1,575,205
Other financial liabilities (Note 20)	198,143	198,143
Derivatives held for trading (Note 10)	116,544	116,544
Derivatives - hedge accounting (Note 10)	179,795	179,795

At 31 December 2018 -

	Thousands of euros	
	Carrying amount	Fair Value
Assets:		
Cash, cash balances with central banks, other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	2,767,627	2,767,627
Loans and advances to customers (Note 9)		
Financial assets at amortised cost	*30,981,799*	*33,710,625*
Non-trading financial assets mandatorily at fair value through profit or loss	*699*	*699*
Fixed income portfolio (Note 7)		
Non-trading financial assets mandatorily at fair value through profit or loss	*28,925*	*28,925*
Financial assets at fair value through other comprehensive income	*6,776,900*	*6,776,900*
Financial assets at amortised cost	*3,868,852*	*3,868,852*
Financial assets held for trading	–	–
Equity portfolio (Note 8)		
Non-trading financial assets mandatorily at fair value through profit or loss	*116,644*	*116,644*
Financial assets at fair value through other comprehensive income	*3,065*	*3,065*
Investments in subsidiaries, joint ventures and associates (Note 12)	2,039,026	2,039,026
Non-current assets and disposal groups classified as held for sale (Note 11)	133,321	133,321
Derivatives held for trading (Note 10)	99,216	99,216
Derivatives - hedge accounting (Note 10)	31,087	31,087
Liabilities:		
Deposits from Central Banks and credit institutions (Note 16)	7,729,881	7,757,241
Deposits from customers (Note 17)	37,380,941	37,509,920
Debt securities issued (Note 18)	754,827	759,304
Other financial liabilities (Note 20)	84,232	84,232
Derivatives held for trading (Note 10)	72,716	72,716
Derivatives - hedge accounting (Note 10)	135,298	135,298

The criteria used to determine the fair value of financial assets and liabilities are as follows:

- In general, the different financial assets and liabilities are measured by discounting future cash flows using the market interest rate curve.

- Fair value of financial assets at a fixed rate of interest is determined by discounting future cash flows using the market interest rate curve through to maturity.

- Fair value of financial assets at a variable rate is determined by discounting future cash flows through to the next interest rate change, which is when the outstanding balance is updated.

- Fair value of financial liabilities is determined by discounting future cash flows using the market interest rate curve.

- On-demand liabilities with low returns (savings and current accounts in Euros), included under "Deposits from customers", are subject to a treatment, according to their maturities, based on their past performance and are discounted using the market interest rate curve.

- Unquoted equity instruments for which it has been possible to estimate their fair value are measured using generally accepted valuation techniques based on observable market data.

- Fair value of financial assets and financial liabilities quoted in official secondary markets has been estimated based on their respective quotations at the date of the financial statements.

- Fair value of over-the-counter (OTC) derivatives not quoted in active official markets and of unquoted debt securities has been estimated by applying generally accepted valuation techniques based on directly observable market data.

43. Residual Maturities of Transactions and Average Interest Rates

A breakdown, by maturity period, of the balances of certain items in the statement of financial position at 31 December 2019 and 2018, excluding valuation adjustments, as well as their annual average interest rates, is as follows:

At 31 December 2019 -

	Thousands of euros							
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years	Total	Average annual interest rate [1]
ASSETS:								
Cash, cash balances with central banks and other demand deposits (Note 5)	3,072,362	–	–	–	–	–	3,072,362	0.00%
Deposits with credit institutions(Note 6)	–	762,268	8,373	179,399	–	–	950,040	(0.05%)
Loans and advances to customers (Note 9)	345,712	1,216,036	2,232,625	5,198,569	11,521,749	17,810,662	38,325,353	1.62%
Debt securities (Note 7)	–	564,297	366,027	242,432	5,880,380	3,033,570	10,086,706	0.59%
	3,418,074	**2,542,601**	**2,607,025**	**5,620,400**	**17,402,129**	**20,844,232**	**52,434,461**	
LIABILITIES:								
Deposits from Central Banks and credit institutions (at amortised cost) (Note 16)	–	895,718	355,307	1,813,072	5,175,480	98,904	8,338,481	0.05%
Deposits from customers (at amortised cost) (Note 17)	28,660,345	2,052,367	2,850,208	7,160,571	1,466,075	1,411,665	43,601,231	0.26%
Debt securities issued (at amortised cost) (Note 18)	–	–	–	83,043	320,197	1,050,000	1,453,240	2.65%
	28,660,345	**2,948,085**	**3,205,515**	**9,056,686**	**6,961,752**	**2,560,569**	**53,392,952**	

[1] These average interest rates include the effects of the hedges arranged by the Bank.

At 31 December 2018 -

	Thousands of euros							
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 months	Between 1 and 5 Years	More than 5 Years	Total	Average annual interest rate (1)
ASSETS:								
Cash, cash balances with central banks and other demand deposits (Note 5)	1,364,430	–	–	–	–	–	1,364,430	0.00%
Deposits with credit institutions (Note 6)	–	838,675	340,221	23,797	200,000	–	1,402,693	0.33%
Loans and advances to customers (Note 9)	286,363	789,309	1,310,828	3,643,267	10,124,972	15,437,831	31,592,570	1.79%
Debt securities (Note 7)	–	1,271,029	–	223,375	2,000,300	7,121,369	10,616,073	0.70%
	1,650,793	2,899,013	1,651,049	3,890,439	12,325,272	22,559,200	44,975,766	
LIABILITIES:								
Deposits from Central Banks and credit institutions (at amortised cost) (Note 16)	–	1,921,468	431,750	99,708	5,218,385	77,311	7,748,622	0.08%
Deposits from customers (at amortised cost) (Note 17)	23,927,347	1,974,464	1,935,530	6,587,443	1,350,765	1,518,572	37,294,121	0.34%
Debt securities issued (at amortised cost) (Note 18)	–	670,016	–	–	55,789	–	725,805	4.40%
	23,927,347	4,565,948	2,367,280	6,687,151	6,624,939	1,595,883	45,768,548	

(1) *These average interest rates include the effects of the hedges arranged by the Bank.*

These tables do not reflect the liquidity position of the Bank, inasmuch as demand accounts and deposits from customers, whose stability is typical of commercial banking, have been treated like any other liability payable on demand. Considering this effect, the differences between assets and liabilities for each period fall within a reasonable range for the volumes of business managed. Further information on the Bank's liquidity management is given in Note 41.

44. Exposure to Credit Risk

44.1. Credit risk management objectives, policies and processes

Credit risk is the risk derived from the potential loss in respect of the full or partial breach of the debt repayment obligations of our customers or counterparties. In the financial system, credit risk management assumes major relevance in the sphere of global management of risks inherent in the financial activity, as it is closely interrelated with other risks such as operational risk, interest rate risk, market risk and reputational risk.

The general principles on which the Bank's risk management is based are as follows:

- Ensuring that the organisational structure associated with the risk function is appropriate, based on the following fundamental criteria:
  - Segregation of duties.
  - Collegiate decisions.
  - Decentralisation.

- Development, introduction and use of appropriate tools for acceptance, analysis, control and monitoring of each kind of risk related to the Bank's activity.

- The General Division of Corporate Control and Risks, together with its dependent structure, establishes the credit risk control framework, which is verified through the appropriate internal control. In addition, it oversees due compliance with the above-mentioned principles, particularly the segregation of duties, correct recognition of positions and their appropriate accounting treatment.

The communication of these basic principles to the Bank as a whole forms a key part of risk management. They are made general knowledge through the informative sessions held in the Bank at all levels, as well as through publication of the internal Standards and Communications that implicitly implement these principles and the daily performance of the procedures and processes in place to ensure compliance therewith.

Effective management of credit risk requires independent decision-making with regard to commercial objectives. The establishment of separate divisions between the business areas and the risk areas entrusted with measuring, analysing, monitoring and disclosing information on risks provides the independence and autonomy needed to adequately control risks.

Organisational structure of the Bank's risks function

The Bank's organisational structure aims to give an effective response to the most relevant strategic and operational aspects, such as:

- The strategy implemented by the Bank in the different markets in which it operates.

- The growing complexity of the Bank's activity and management.

- The need to boost and better guide commercial actions.

- Proper compliance with the Bank's strategic guidelines.

The Bank has been structured around three defence lines to enable a global risk management approach that involves the entire organisation. In this structure, the risk control function constitutes the second line of defence, responsible for monitoring the performance of all the business units (which make up the first line of defence) and is in turn supervised by the third line (Internal Audit).

This organisational structure reinforces the credit risk supervision and control areas, fostered by:

- The organisational trends of credit institutions as a result of the implications of the New Basel Capital Accord.

- The Bank's strategic planning within the framework of measures adopted in the integration plan and in compliance with the new capital requirements.

From a functional standpoint, the following, related activities correspond specifically to the area of risk management:

I. General Division of Corporate Control and Risks

The Bank has a General Division of Corporate Control and Risks (which reports directly to the CEO, thus guaranteeing the independence of Risk Control). The mission of this General Division is to foster a risk culture throughout the organisation, representing the Bank's second line of defence through the comprehensive management of risks (credit, market, liquidity, interest rate, operational, security and continuity, etc.), ensuring the Bank's solvency and resilience in accordance with the risk profile defined by the governing bodies, and leading the Bank towards best practices in risk culture.

In order to ensure adequate Credit Risk Control, this General Division includes a Comprehensive Risk Management Area, which comprises the Capital and Solvency, Credit Risk Control, Policies and Regulations, Risk Methodologies, Market Risk, Interest Rate and Liquidity Risk, and Operational and Reputational Risk Unit.

This Division, which is in charge of defining the policies and procedures for managing risks based on the target risk profile defined, reviews policies on an ongoing basis to bring them into line with legislation and the Bank's strategy. The strategies and limit-setting policies and risk products to be commercialised are determined based on the risk profile defined by the Group and the prevailing economic climate.

With a view to obtaining models for assessing the risk of all the Bank's portfolios, the Comprehensive Risk Management Area plans the procurement of scoring and rating models for all the portfolios based on their representativeness and models for assessing the expected losses on portfolios. It shall be noted that in January 2018 ABANCA adopted IFRS 9 and developed internal models for the assessment of credit risk impairment in accordance with IFRS 9.

In addition, this unit collects metrics for each operation and customer through the implementation of statistical models to minimise the possibility of future losses derived from non-payment when granting operations, thereby enabling it to create efficient systems for recovering debts and for tracking changes in the Bank's credit risk profile. This unit has also submitted a proposal for the application of credit risk policies based on automated risk qualification models and systems.

Furthermore, this area is responsible for ensuring compliance with Regulations 575/2013 and with Directive 2013/36/EU of the European Parliament and of the Council (CCR/CRD IV) that came into force on 1 January 2014, and is also responsible for defining the settings of capital requirements calculation engines and for the implementation thereof.

In connection with the foregoing, it should be noted that among its strategic priorities of the Bank is to continue making progress in the process for migration IRB models; to this end, Senior Management has allocated specific resources and a specific monitoring line.

This unit is also responsible for implementing the optimisation of the return/risk ratio (using RAROC methodologies), which will allow for more accurate price setting and a more efficient allocation of capital.

The Comprehensive Risk Management Unit, operating within the General Division, is responsible for defining and proposing the Risk Appetite Framework (hereinafter RAF) for approval by the governing bodies of the Bank based on the strategies defined by them. Once the RAF has been defined, this unit prepares monitoring and control reports with the frequency required by the governing bodies.

The presentation of risk appetite reports by this division to the board of directors, following their prior review by the Comprehensive Risk Commission and the Comprehensive Risk Committee, is indispensable to the effectiveness of the RAF.

The reports are to be prepared and submitted on a monthly basis to the Comprehensive Risk Committee, and shall be submitted to the Comprehensive Risk Commission (although certain metrics may be reported at longer intervals - quarterly).

These reports must include at least the following characteristics:

i. Monitoring of the risk metrics defined in the RAF to compare the risk profile at any given time with the risk appetite, in order to be able to demonstrate any deviation with regard to what has been defined by the Bank and to propose the appropriate corrective measures.

ii. An additional breakdown (by portfolio, geographical area, product type, etc.) for those metrics in which changes, without going as far as to trigger any of the defined alerts, may enable the Bank to anticipate unexpected behaviour.

The Comprehensive Risk Management Area is the point of liaison for all risk-related issues (including the control, monitoring and supervision thereof and changes therein) with the Spanish National Securities Market Commission (CNMV), the Bank of Spain, the European Central Bank, the European Banking Authority, ratings agencies and external auditors.

Finally, the General Division is also responsible for coordinating the preparation of the ICAAP, the ILAAP, the Recovery Plan and the Resolution Plan.

This General Division performs coordination tasks with the General Division of IT, Reporting, Processes and Operations, ensuring that the different automated systems and work procedures and credit risk management are aligned with the Bank's strategic approach in respect of this issue.

The main functions of the departments engaged in managing credit risk that operate within the Comprehensive Risk Management Division are defined below.

Credit Risk Control, Policies and Regulations

Within the Comprehensive Risk Management Area, this unit is responsible for proposing and defining risk management policies, standards and procedures on the basis of the target risk profile. The strategies and limit-setting policies (by sector, geographical area, customer, type of transaction and segment) and risk products to be commercialised are determined based on the existing regulations, on the risk profile defined by the Bank and on the prevailing economic climate.

More specifically, this unit has the following fundamental functions:

- To recommend the approval of risk limits to the Comprehensive Risk Commission in accordance with the risk tolerance of the Bank, analysing any deviations — and their causes — with respect to the defined risk profile by proposing corrective measures.

- To ensure adequate control over the risk profile defined by the Bank through the setting of risk policies and the definition and issue of legislation regulating the management of all risks. All of these functions are carried out under the umbrella of the Comprehensive Risk Management Division.

- To coordinate the preparation of the ICAAP, Recovery Plan and Resolution Plan.

- To coordinate the proposal of the RAF and the Recovery Plan for their presentation by the General Manager of Corporate Control and Risks to the Comprehensive Risk Commission, following their prior submission to the Comprehensive Risk Committee, and to perform monitoring in this connection.

- To coordinate the negotiation, establishment, dissemination and monitoring of credit activity criteria and monitor these criteria in collaboration with the General Business Divisions.

- To develop all risk-related regulations through policies, standards and manuals.

- To ensure the quality of new loans and receivables and of management, pursuant to the criteria established by the Bank for the outstanding portfolio, through participation on the Risk Committees.

- To liaise on risk-related issues — control, supervision and developments — with the Spanish National Securities Market Commission (CNMV), Bank of Spain, ratings agencies and external auditors.

- To cooperate in defining new products and ensure compliance with the Bank's risk policies.

- To review procedures, set up controls and identify needs in order to improve customer identification for segmentation of special customers (leveraged, related parties, real estate,...).

- To establish a uniform culture of risk management throughout the commercial network, disseminating and controlling the application of defined risk policies and the corresponding processes.

- To ensure the consistency and quality of Risk information, working together with Systems in the implementation of the Risk technological model (Risk Datamart).

- To monitor credit risk profile and to analyse the evolution thereof. To report to the Governing Bodies on the performance of the loans and receivables portfolio.

- To coordinate the determination of the NPEs strategy. To monitor, on a quarterly basis, NPLs performance, and to report both to Governing Bodies and to the Supervisory Authority.

- To prepare, on a quarterly basis, Credit Risk Segmentation Distribution Table, to be reported to the Bank of Spain.

- To study and analyse any regulatory changes pertaining to credit risk, for implementation thereof in credit risk control and management procedures.

- To coordinate the process for generating Bank of Spain credit risk inspection files, performing any necessary validations in order to ensure the quality of data. Additionally, to coordinate the management of received issues.

- To coordinate and manage the submission of any and all necessary information to Bank of Spain's central credit register (CIRBE). To liaise with the Supervisory Authority in order to address the submission and any eventual claims and issues.

Risk Methodologies

The Comprehensive Risk Management Area includes the Risk Methodologies Unit, responsible for the development and administration of credit risk management models together with the dynamic assessment of portfolio risk through statistical modelling of the portfolio as a whole, and the construction and definition of an entire platform of information for the Bank that enables control and in-depth knowledge of the Bank's situation vis-à-vis the credit risk level in different focal points of analysis.

This unit collects metrics for each operation and customer through the implementation of statistical models to minimise the possibility of future losses derived from non-payment when granting operations, thereby enabling it to create efficient systems for recovering debts and for tracking changes in the Bank's credit risk profile.

More specifically, this unit's remit is essentially as follows:

- To define the reporting and analytical systems that will enable the Bank to monitor credit risk on a global level (across the various areas: sector, product, business line) and issue alerts on performance, thereby allowing the necessary corrective measures to be defined.

- To study and analyse any regulatory changes pertaining to credit risk and the techniques applicable to credit risk control.

- To design, validate and implement credit risk models.

- To perform the calculation and maintenance of the methodologies for calculating the probability of default (PD), exposure at default (EAD) and loss given default (LGD), within the scope of both IFRS9 and IRB.

- To establish, verify and control the discrimination and stability of credit rating models (Rating, Scoring), calibrating the models and keeping the target default rate at appropriate levels established by the Bank, monitoring their predictive capability.

- To monitor the positive predictive capability of the credit risk tools available within the Bank, compiling risk maps and transition matrices and, where appropriate, updating the pertinent algorithms.

- To apply credit risk policies based on automated risk qualification models and systems.

- To define the methodology for determining the expected loss in those portfolios in which this calculation entails an automated, mass process, and to systematically monitor and update this amount. To assess and monitor the expected loss from the credit risk portfolio.

- To cooperate with Business in searching prospective publics (pre-granted, pre-authorised...).

- To provide advice in separate assessments related with credit risk control and modelling techniques.

- To supply other bank/group units (ASF) with credit risk assessment tools (development, monitoring, adjustment and definition of credit risk policies using those tools, definition of target publics).

- To take part in the management of credit risk rating tools (admission, monitoring, recovery, etc. processes).

- To integrate RAROC indicators and tools and to perform RAROC analyses on portfolios.

Capital and Solvency

The Comprehensive Risk Management Area includes the Capital and Solvency Unit reporting to the Comprehensive Risk Management Division, responsible for ensuring compliance with the regulatory framework on Capital Requirements (Regulation EU 575/2013; Directive EU 2013/36; Law 10/2014, and Royal Decree 84/2015). To this purpose, all the regulatory information referred to Tier I (COREP and AE), Tier II (Self-assessment Report) and Tier III (Information of Prudential Relevance) shall be prepared. Additionally, the Group is required to assist in the preparation of capital planning and mandatory stress testing.

More specifically, this unit's remit is essentially as follows:

- To prepare the solvency scorecards for their subsequent presentation to the Comprehensive Risk Commission and the board of directors.

- To deliver the COREP statements regulatory reporting and to prepare the asset encumbrance disclosures.

- To monitor and control the capital position and capital requirements.

- Setting and implementation of capital requirements calculation engines.

- Preparation of Tier III (Information of Prudential Relevance) coordinating the necessary preparations for compliance therewith and preparation of Capital Planning for compliance with Tier II (Capital Adequacy Plan – ICAAP).

- To prepare the capital information for the Recovery Plan.

- To coordinate the regulatory stress test exercises established by the ECB.

- Providing advice to ABANCA subsidiaries in assessing the impact on Solvency of their respective strategies.

Moreover, in July 2018 the Bank created the Division of Internal Validation and Risk Data Control, reporting to the General Division of Corporate Control and Risks, in order to strengthen the Entity's governance and which will allow to Bank to advance towards an "Internal Rating Based (IRB)" approach.

The unit was created in such a was as to ensure its independence from first line functions, and was provided with specialised resources for the performance of its functions and for the development of validation framework, approved by the Risk Committee, that complies with specific guidance of validation.

This Division reports directly to CRO, thereby ensuring the independence of the function of internal models development, and is a voting member on the Models Committee.

The mission of the Division is to issue an independent technical opinion on the adequacy of internal models, on the suitability of the environment for controlling the quality of data generated within the scope of Comprehensive Risk Management, and on the adequacy of eligible items for the purposes used — whether for internal management or for regulatory purposes — (calculation of regulatory capital, provisions, etc.), and to present conclusions on the soundness, usefulness and effectiveness thereof, thereby ensuring the fulfilment of:

- The relevant regulatory requirements;

- The effective implementation thereof in risk management;

- The reasonableness of their use both for management purposes and for calculation of regulatory capital;

- The suitability of control and technological environments;

- A sound governance.

In particular, this Division is responsible for:

- Validating rating tools (scoring/rating)

- Validating internal regulatory parameters for the assessment of expected credit loss and/or internal capital

- Validating eligible items in accordance with CRR regulations

- Validating material quantitative aspects of ICAAP

- Validating data governance within the scope of Comprehensive Risk Management.

II. General Credit Division

The Bank undertakes active management of risk throughout its entire lifespan. The risk, in this regard, is managed in several stages, which depend on the events that take place during the period in which the transactions are ongoing.

Within the General Division of Credit, functions relating to risk lifecycle are effectively segregated; risk lifecycle is modulated through separate units with different objectives that are monitored within the corporate process for objectives control, and which are subject to policies and procedures established by the second line, and whose process are reviewed by Internal Audit.

In the loans and receivables acceptance stage, this requires application of conservative criteria, seeking a reasonable balance between efficiency and efficacy through the decentralisation of decision-making, based on the delegation of powers and the assignment of responsibilities depending on the risk assumed, and with support from the management and control tools in place that enable this process to be controlled at all times in accordance with the established policies and regulations.

It has a particular impact during the applications analysis stage, clearly defining and delimiting the policies, circuits, processes and procedures applicable in each case, depending on the circumstances and characteristics of the application. In this regard, the Group must apply objective and uniform criteria that minimise the number of transactions approved outside of the established channels and increase their traceability.

Assessment of the capacity to generate sufficient cash flows from the borrowers to meet the commitments undertaken is the fundamental criterion in making decisions about the transactions.

In the monitoring stage, the primary objective of the Bank is the early detection of situations where the Customers/Groups are at risk of default, to enable specific action plans to be exercised to prevent this from occurring.

This General Division relies on the Credit Risk Acceptance and Analysis, Credit Products, Credit Risk Monitoring and Recoveries Areas in order to carry out its mission.

Credit Risk Acceptance

The Credit Risk Acceptance and Analysis Unit is responsible for managing the process of risk analysis through to arrangement, ensuring the quality of the assets together with the business units and the credit risk monitoring unit, within the framework of the Bank’s risk policies issued by Comprehensive Risk Management.

Credit risk management falls fundamentally to this Area, which directly supervises the risk analysts and whose job is to analyse, review and report on transactions before they are approved, channelling proposals to the different approval committees, in accordance with their powers of authorisation.

Credit Risk Monitoring

This unit assumes responsibility for establishing monitoring procedures, systems and indicators that point us towards the Bank's risk profile, and for applying the monitoring policies in place, as well as systems for the management of internal and external alerts that help us make decisions about risk portfolios and customers with a view to improving the quality of assets, in close collaboration with the Network.

Expert ratings of the main risks are carried out through Credit Monitoring, which helps to define an optimum portfolio, monitoring risks/portfolios corresponding to the retail and portfolio segments. This unit is responsible for the definition and management of Economic Groups, exercising particular control over "groups" in special situations that could have an impact on the Bank's solvency. In addition, it analyses the expected loss from those customers for which this cannot be modelled, mainly large customers. It also carries out systematic control and updating of the expected loss from these customers.

This unit proposes the qualification and accounting write-off of singular borrowers based on the analysis and monitoring of their situation and expected loss, conduct and operations, to give a true and fair view of the portfolio quality. The unit is also responsible for adequately reporting and, where appropriate, making the necessary proposals to correct the decline in customer risk quality, in particular customers that have a specific expected loss, to ensure compliance with the action plans designed to overcome such losses.

Credit Products

Within the Credit Products Area, the Bank has a Guarantees Unit, forming part of the Loans Back Office Unit, whose main job is to verify the consistency of the collateral associated with the assets by validating the appraisals, thereby minimising the possibility of errors in asset measurement, through the automation of processes. In addition to the Loans Back Office Unit, the Entity has a Validation and Arrangement Unit, which strives to ensure the correct instrumentation of the asset files.

This unit also has to keep the value of collateral updated, in accordance with the Bank's internal policy.

Recoveries

This unit is responsible for providing support in the management of loan assets with significant weaknesses, and its main activity centres on divestitures to redirect the liquidity obtained towards new investments.

The recovery stage of impaired assets is an important area of action within this economic framework. Special focus is therefore placed on the reorganisation of these assets, as well as on driving actions that enable the effective loss to be minimised and that facilitate the recovery of these kinds of assets. In addition to recovering the individual impaired assets, the unit also analyses reorganisation alternatives for the statement of financial position that include in bloc sales of assets from some segments of the portfolio.

The remit of the Recoveries Unit is as follows:

- To optimise coordination of all agents involved in the recovery.

- To allocate resources and give priority to recovery actions based on the needs and forecasts prevailing at any given time.

- To take decisions in any significant recovery procedure and set criteria for the recovery process.

- To monitor and oversee the recovery targets set for the different recovery agents of this area.

- To revitalise the recovery process in all areas, focusing particularly on the most sensitive sectors/segments.

- To exercise judgement in identifying contracts suitable for portfolio sales, repurchases of securitised assets for refinancing, dations in payment, etc.

- To put forward a definitive risk resolution (collection, refinancing, purchase or enforcement)

III. General Division of Business in Spain

This General Division is responsible for the process of generating loans and receivables within the Retail Banking, Business Banking, SMEs and Sector Banking, Corporate and Specialty Banking commercial networks in Spain.

IV. General Division of Capital Markets, Management and Distribution

This General Division is responsible for operations management in the Group's wholesale markets, taking responsibility with regard to acceptance and administration of Treasury transactions and variable income and fixed income portfolios, which have to be approved by the corresponding joint committees and bodies. The Institutional Banking unit reports to this General Division.

V. General Division of International Business

This General Division is in charge of generating loans and receivables in the International Commercial Network, which includes representative branches abroad.

VI. General Division of IT, Reporting, Processes and Operations

This General Division is responsible for the architecture of the processes and technology supporting the Bank's operations, and is therefore in charge of implementing the necessary controls to ensure that transactions are arranged in accordance with the criteria approved by the corresponding committees.

Credit Risk Acceptance Circuit

The acceptance process is based on the credit risk circuit, which specifies the analysis procedures and policies, as well as the different hierarchical levels with powers and authority to approve transactions.

In accordance with the foregoing, once the strategy has been defined and the corresponding risk policies have been developed within the General Division of Corporate Control and Risks, a formal risk authorisation system is established in the different business divisions, whereby delegated powers are assigned to the different hierarchical levels of the organisation for the authorisation of transactions, which vary depending on the type, the guarantees and the amount of the risk.

The Bank has a collective decision-making system in place which is based on a hierarchical structure of approval in each of the different business channels. Appropriate parallels between the committees are established in these channels.

The Commercial Division is structured into branches, broken down by category, followed by Area Divisions, Regional Divisions and Commercial Divisions, with the General Division at the top of the ladder. Each of these levels is subject to a certain limit on delegated powers for the assumption of risks, collectively approved by the risk committees.

This structure converges with a group of higher-level committees that are centralised for the organisation as a whole.

The Bank's Board of Directors approves a Risk Appetite Framework and a Credit Risk Policy Manual, which delimits the area of action relating to credit risk, pursuant to the Bank's strategy and the desired risk profile.

The authorisation framework, whereby powers are distributed by amounts, products and guarantees, while considering the exceptions and standards that regulate their use, is shown in the General Authorisations Standard.

Based on this structure, when considering a new transaction the Bank verifies whether it can be approved at the organisational level at which it originated or whether it must be reported and forwarded to a higher level. In general, all transactions are approved by the committee at the required level of authorisation.

For the purpose of guaranteeing objectivity in credit risk analysis and application of the associated policies, the areas and departments in charge of the loans and receivables risk analysis function are independent from the commercial function. The Risk Acceptance and Analysis Unit forms part of the General Credit Division.

Its main function is management of the risk acceptance process through to arrangement, ensuring the quality of assets, maintaining efficient response mechanisms and coordination with the Business Units, the Corporate Control and Risks Unit and the Credit Monitoring Unit (which reports to the General. Credit Division), within the framework of the Bank's policies This unit acts at all levels of authorisation, except those of minor relevance, in other words those delegated to branch level. Transactions that exceed the foregoing authorisation levels are submitted, in the last instance, to the Delegate Credit Committee.

The report corresponding to each transaction has a uniform structure which, in addition to the general considerations of the transaction analysis, establishes a risk assessment based on the opinion of the expert and from different perspectives (commercial risk, economic-financial risk, legal risk, asset risk, etc.), to facilitate global assessment of the transaction and customer. This in turn determines, based on the risk policies established to this end, the recommended level of exposure and, where applicable, whether or not these have been tampered with.

The authorisation of transactions requested or supported by employees falls within the scope of the Division of Employment Consultancy, Social Welfare and Prevention of Occupational Risks, provided the recipient of the loan is an individual. The opinion of the Risk Acceptance and Analysis Division may be requested for these purposes.

Details of the different committees involved in the credit risk analysis process are as follows:

– The board of directors is responsible for setting the Bank's general risk policy, as well as the Risk Appetite Framework.

– The Comprehensive Risk Commission is responsible for proposing the Bank's risk policy to the board of directors, and the board is responsible for approving this policy as part of its powers of administration and supervision. Furthermore, the Commission verifies that the Bank's actions are consistent with the risk tolerance level and, in this regard, sets global limits on the main risk exposures, monitoring these risks through systematic reviews and dealing with those transactions that exceed the powers delegated to lower levels. It is also responsible for the global control over credit risk and the coordination and monitoring of associated policies and functions, as well as the definition of the operational, market and credit risk policies.

– The Delegate Credit Committee holds powers corresponding to the board of directors in respect of the granting and monitoring of financing transactions, irrespective of their nature, making it the highest-level body that approves transactions entailing credit risk. In turn, this commission has delegated approval powers for certain transactions to lower-level risk committees on the basis of geographical location, business or risk type, all of which are defined in the risks corporate governance model, in accordance with the Bank's General Authorisations Standard.

– Central Committee. The functions of this committee are to assess and decide on the acceptance of credit transactions that exceed the remit of the regional committees, approving those it is eligible to authorise and passing any others on to a higher level if approval is required from the Delegate Credit Committee. In all cases, transaction approvals require a unanimous decision from all committee members, otherwise the transaction must be passed on to a higher level.

– Regional Committees, Area Committees and Risk Analysis Committee. The functions of these committees are to assess, decide on and approve the acceptance of credit transactions from the commercial network, approving those for which they hold the necessary powers or, where appropriate, referring them to a higher level if approval is required from the aforementioned committees.

The Credit Risk Policy Manual sets out policies by market and segment to ensure, inter alia, the adequate diversification of the Bank's loan portfolio, pursuant to the Risk Appetite Framework defined by the Entity.

Recovery Circuit

The Bank's recovery process is governed by the principles of anticipation, objectivity and efficacy. The Bank has a uniform and objective process for managing the recovery of defaulted transactions. This process is adapted in accordance with the type of customer, the amount of the transaction, the associated collateral or the term.

The recovery process is based on a circuit which specifies the recovery procedures and policies, as well as the different hierarchical levels with powers and authorisation to approve transactions.

Transactions with forbearance measures follow the Bank's usual acceptance circuits based on process of allocation of customers to portfolios (General Authorisations Standard).

The recovery process is divided into four stages, broken down according to the actions to be carried out and the agents that take part in each stage:

– Recovery Support and Management (0 to 120 days past due):

  - The Bank attempts to make direct contact with debtors, looking for the best solution to enable them to settle their debts with a view to normalising the defaulted balances. This collection management is carried out until day 60 Business.

  - From day 60 onwards, recovery is carried out by specialised recovery agents. Efforts are made to prevent the debtor from reaching this 60-day point and, given the urgency of the situation, to bring forward the definitive resolution of the risk (enforcement/purchase) where necessary. The parties involved in this stage are as follows: Business, Recoveries Department and External Agents.

– Pre-litigation management (more than 120 days), the stage in which the Group attempts to procure an out-of-court settlement and optimise the processing formalities of the portfolio subject to legal proceedings.

– Legal management, for the purpose of optimising legal procedures and minimising the financial impact stemming from non-performing loans. The cases may be passed on to the legal department if this is in the Group's interest, or once the deadlines established for out-of-court management have elapsed.

Credit Risk Monitoring

Monitoring is centralised in the General Credit Division, which falls within the Credit Monitoring Area, which is engaged exclusively in monitoring tasks, performing them systematically through the control and issue of information, the performance of actions and periodic monitoring committee meetings.

The main purpose of the Bank's credit risk monitoring is to enhance its capacity to anticipate possible incidents with customers and mitigate these as expeditiously as possible.

The Bank has systems in place to monitor credit transactions, whereby changes in the borrower's credit rating with respect to the transaction approval date can be detected, enabling measures to be proposed to mitigate the impact of a possible default.

The process of monitoring transactions and customers is based on systems that provide advance warning of potentially irregular situations, as well as the work carried out by technical monitoring units that are closer to business management.

The monitoring methodology is essentially based on the periodic analysis of information on customers and transactions, compiled considering predetermined variables, detecting any anomalous deviations in their behaviour.

In addition to being originated systematically (i.e. through the establishment of review schedules and plans), monitoring may also be originated symptomatically through alerts to the branch or manager, which can help to detect the possible impairment of customer balances, and of the risk transactions/collateral or the environment/market in which they operate.

44.2. Maximum risk exposure level

The following table shows the maximum credit risk exposure level assumed by the Bank at 31 December 2019 and 2018 for each type of financial instrument, without deducting collateral or any other credit enhancements received to ensure repayment by borrowers:

At 31 December 2019 -

	Thousands of euros							
	Asset balances							
	Financial assets at fair value through profit or loss							
Type of instrument	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Other assets	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost and other demand deposits	Derivatives - hedge accounting	Off-balance sheet items	Total
Debt instruments:								
Deposits in credit institutions	–	–	–	–	1,138,525	–	–	1,138,525
Marketable securities	76,981	29,314	–	4,103,307	5,895,751	53,087	–	10,158,440
Loans and advances to customers	–	–	–	–	37,882,486	–	–	37,882,486
Total debt instruments	**76,981**	**29,314**	**–**	**4,103,307**	**44,916,762**	**53,087**	**–**	**49,179,451**
Guarantees extended:								
Financial guarantees	–	–	–	–	–	–	348,913	348,913
Other guarantees extended	–	–	–	–	–	–	1,419,131	1,419,131
Total financial guarantees and other commitments granted	**–**	**–**	**–**	**–**	**–**	**–**	**1,768,044**	**1,768,044**
MAXIMUM EXPOSURE LEVEL TO CREDIT RISK	76,981	29,314	–	4,103,307	44,916,762	53,087	1,768,044	50,947,495

At 31 December 2018 -

	Thousands of euros							
	Asset balances							
	Financial assets at fair value through profit or loss							
Type of instrument	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Other assets	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost and other demand deposits	Derivatives - hedge accounting	Off-balance sheet items	Total
Debt instruments:								
Deposits in credit institutions	–	–	–	–	1,664,193	–	–	1,664,193
Marketable securities	–	28,925	–	6,776,900	3,868,852	31,087	–	10,705,764
Loans and advances to customers	–	699	–	–	30,981,799	–	–	30,982,498
Total debt instruments	**–**	**29,624**	**–**	**6,776,900**	**36,514,844**	**31,087**	**–**	**43,352,455**
Guarantees extended:								
Financial guarantees	–	–	–	–	–	–	291,912	291,912
Other guarantees extended	–	–	–	–	–	–	1,240,945	1,240,945
Total financial guarantees and other commitments granted	**–**	**–**	**–**	**–**	**–**	**–**	**1,532,857**	**1,532,857**
MAXIMUM EXPOSURE LEVEL TO CREDIT RISK	**–**	**29,624**	**–**	**6,776,900**	**36,514,844**	**31,087**	**1,532,857**	**44,885,312**

The following should be taken into account with respect to the information shown in the above table:

- "Debt instruments" recognised in the assets side of the statement of financial position are presented at their carrying amount, and therefore the impairment losses recognised thereon are included in the "Asset balances" column.

- Guarantees extended are stated at the maximum amount guaranteed by the Bank. In general, most of these balances are estimated to reach maturity without requiring any actual financing by the Bank.

44.3. Collateral and other credit enhancements

Transaction-granting is based on the payment capacity of the applicants, although, as an essential tool in the management of credit risk, the Bank ensures that financial assets acquired or arranged are secured by collateral or other credit enhancements aside from the debtor's own personal guarantee. The Bank's policies for analysing and selecting risk specify the collateral or other credit enhancements that a transaction requires – based on the different characteristics of the transactions such as the purpose of the risk, counterparty, duration, capital consumption, etc. – in addition to the debtor's own personal guarantee, to proceed with the arrangement.

The measurement of collateral is carried out based on the nature of the collateral received. In general, collateral in the form of properties is measured at appraisal value at the contract date as calculated by independent experts in accordance with rules established by the Bank of Spain. In general, and in accordance with the appraisal regulations under Ministerial Order ECO/805/2003, an updated appraisal is required in the event of new mortgage loans, novations/refinancing/restructuring with forbearance measures, purchases of assets or dations in payment, or the foreclosure of assets. Securities listed on active markets given as collateral are measured at market price, adjusted by a percentage to cover any eventual fluctuations in market price that may adversely affect risk coverage; bank guarantees, and similar collaterals are measured at the amount secured in these transactions. Credit derivatives and similar arrangements used for credit risk hedging are measured, for the purposes of determining the achieved coverage, at their nominal amount equivalent to the secured exposure; deposits pledged given as collateral are measured at the value thereof and, where expressed in foreign currencies, converted at the exchange rate prevailing at each measurement date.

The breakdown of the maximum credit risk exposure of each type of financial instrument secured by each of the main types of collateral and other credit enhancements available to the Bank at 31 December 2019 and 2018 is as follows:

At 31 December 2019 -

	Thousands of euros							
	Secured by real estate collateral	Secured by money deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other A-rated entities	Guaranteed by other entities	Hedged with credit derivatives	Total
Deposits in credit institutions	–	–	823,872	–	–	–	–	823,872
Marketable securities	–	–	–	–	–	3,220,187	–	3,220,187
Loans and advances to customers	18,372,839	1,126,961	1,046,599	170,458	–	363,244	–	21,080,101
Debt instruments	**18,372,839**	**1,126,961**	**1,870,471**	**170,458**	**–**	**3,583,431**	**–**	**25,124,160**
Guarantees extended	**233**	**4,898**	**9**	**–**	**–**	**–**	**–**	**5,140**
Other exposures	**–**	**10,369**	**–**	**–**	**–**	**–**	**–**	**10,369**
Total covered amount	**18,373,072**	**1,142,228**	**1,870,480**	**170,458**	**–**	**3,583,431**	**–**	**25,139,669**

At 31 December 2018 -

	Thousands of euros							
	Secured by real estate collateral	Secured by money deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other A-rated entities	Guaranteed by other entities	Hedged with credit derivatives	Total
Deposits in credit institutions	–	144	543,407	–	–	–	–	543,551
Marketable securities	–	–	–	–	–	3,869,531	–	3,869,531
Loans and advances to customers	14,983,486	1,073,036	402,026	173,267	–	263,793	–	16,895,608
Debt instruments	14,983,486	1,073,180	945,433	173,267	–	4,133,324	–	21,308,690
Guarantees extended	–	–	–	–	–	–	–	–
Other exposures	–	8,978	–	–	–	–	–	8,978
Total covered amount	14,983,486	1,082,158	945,433	173,267	–	4,133,324	–	21,317,668

45. Interest Rate Exposure

45.1. Interest rate risk management objectives, policies and processes

Interest rate risk is the risk that fluctuations in market interest rates could affect annual profits and net worth, due to time lags between maturity periods and the repricing of the Bank's assets and liabilities.

This risk is inseparable from the banking business given that one of the fundamental characteristics of credit institutions is that a large part of the basic products with which they operate is subject to the rigours of interest rates. However, excessive exposure to this risk could jeopardise the stability of the margin and the value of an entity.

The interest rate risk associated with financial instruments affects the Bank in two ways:

- Through the effect of interest rate variations on the statement of profit or loss, as the Bank's assets and liabilities may include certain financial instruments that accrue interest at fixed or renegotiable rates, and therefore any variations therein would have an asymmetrical effect on the different instruments ("interest rate gap"). In the case of floating interest rate operations, the risk materialises when interest rates are recalculated.

- The Bank is exposed to market interest rate risk as a result of holding assets, the fair value of which varies due to changes in these market interest rates, affecting the Bank's equity and profits.

The objectives in respect of interest rate risk management are approved at strategic level by the board of directors of the Bank while the procedures for achieving and controlling those objectives are defined by the Bank's Assets and Liabilities Committee.

The Bank's aim is to measure and manage interest rate risk, endeavouring to guarantee a net interest margin and a stable and growing economic value of equity, in accordance with the Entity's risk appetite. Consequently, the Bank's policies are targeted at maintaining reduced exposure to interest rate risk, whereby corrections to market interest rate curves do not have a significant direct effect on the activity and consolidated profits of the Bank, maintaining the balance at optimum levels of return in all circumstances.

Sensitivity measurement techniques and scenario analyses are used to analyse, measure and control the interest rate risk assumed by the Bank and adequate limits are established to avoid exposure to risks at levels that could significantly affect the Bank. These procedures and analysis techniques are revised when necessary to ensure adequate performance. Furthermore, all transactions that are individually significant for the Bank are analysed both individually and jointly with the Bank's other transactions to ensure control over interest rate risk, as well as other market risks to which the Bank is exposed through their issue or acquisition.

The Bank uses hedges for the individual management of the interest rate risk of all significant financial instruments that may be exposed to equally significant interest rate risks, thus reducing this type of risk to practically zero.

The table below shows the Bank's level of exposure to interest rate risk at 31 December 2019 and 2018 for each significant currency, indicating the carrying amount of the financial assets and liabilities affected by this risk, which are classified in accordance with the estimated period until the interest rate repricing date (for those transactions that contain this characteristic, based on their contractual terms) or maturity (for those transactions with a fixed rate of interest), and the carrying amount of instruments hedged in interest rate risk hedging transactions.

At 31 December 2019 -

	Millions of euros							
	Term to Review of effective interest rate or to maturity							
	Up to 1 Month	Between 1 and 3 Months	Between 3 and 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Between 4 and 5 Years	More than 5 Years
Expressed in euro:								
Financial assets								
With floating interest rate	7,647	10,707	14,803	–	–	–	–	–
With fixed interest rate	4,474	1,705	1,801	645	826	1,656	438	3,042
	12,121	12,412	16,604	645	826	1,656	438	3,042
Financial Liabilities								
With floating interest rate	1,751	17	155	–	–	50	–	–
With fixed interest rate	10,160	3,788	11,110	4,187	3,836	1,637	4,435	10,525
	11,911	3,805	11,265	4,187	3,836	1,687	4,435	10,525
Expressed in foreign currencies:								
Financial assets								
With floating interest rate	315	446	294	–	–	–	–	–
With fixed interest rate	183	147	255	38	10	19	23	127
	498	593	549	38	10	19	23	127
Financial Liabilities								
With floating interest rate	–	–	137	–	–	–	–	–
With fixed interest rate	298	235	794	66	50	3	48	100
	298	235	931	66	50	3	48	100
Total Assets	12,619	13,005	17,153	683	836	1,675	461	3,169
Total Liabilities	12,209	4,040	12,196	4,253	3,886	1,690	4,483	10,625

At 31 December 2018 -

	Millions of euros							
	Term to Review of effective interest rate or to maturity							
	Up to 1 Month	Between 1 and 3 Months	Between 3 and 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Between 4 and 5 Years	More than 5 Years
Expressed in euro:								
Financial assets								
With floating interest rate	5,699	9,522	13,914	5	–	–	–	–
With fixed interest rate	3,394	1,043	1,182	1,586	769	397	272	2,905
	9,093	10,565	15,096	1,591	769	397	272	2,905
Financial Liabilities								
With floating interest rate	124	71	159	–	–	–	27	–
With fixed interest rate	11,107	2,933	8,475	3,556	4,932	387	4,574	8,162
	11,231	3,004	8,634	3,556	4,932	387	4,601	8,162
Expressed in foreign currencies:								
Financial assets								
With floating interest rate	341	279	225	–	–	–	–	–
With fixed interest rate	231	91	173	12	10	8	18	147
	572	370	398	12	10	8	18	147
Financial Liabilities								
With floating interest rate	–	–	133	–	–	–	–	–
With fixed interest rate	194	156	613	81	34	3	33	66
	194	156	746	81	34	3	33	66
Total Assets	9,665	10,935	15,494	1,603	779	405	290	3,052
Total Liabilities	11,425	3,160	9,380	3,637	4,966	390	4,634	8,228

45.2 Interest rate risk sensitivity analysis

Information included in this section on the sensitivity to interest rate risk of statement of profit and loss and the economic value of the Bank's capital has been prepared in accordance with the following methods and assumptions:

- The validity of the analyses provided should be considered within the context of the current situation of the domestic and international financial markets.

- Therefore, although prevailing legislation requires that these analyses be performed based on changes that could be considered reasonably possible in each risk variable, the current situation of the national and international financial markets makes it difficult to assign probabilities to the different changes in the market variables, which include interest rate risk, to be able to determine whether certain changes are reasonably possible compared to others. Consequently, the analysis provided below has been performed considering two standard scenarios, which are used in compliance with Spanish law: 1) that of a drop in market interest rates by 200 basis points with respect to the implicit rates at 31 December 2019, determined applying Bank of Spain criteria, with a floor of -1% for changes in short-term market rates and a floor of 0% for changes in long-term market rates; 2) and that of a rise by 200 basis points with respect to the implicit rates at the same date.

- The analysis considers the performance of the implicit rates, projecting the statement of financial position, based on a scenario of balance and structure without changes.

- This analysis was performed based on a one-year period.

- As regards the impact on the statement of profit or loss and capital, the results of the analysis carried out show that this change would affect the "interest margin" (because of the effect on income of interest and similar amounts received and paid by the Bank) and the economic value of capital (for these purposes, the economic value of capital is calculated as the sum of the fair value of net assets and liabilities sensitive to interest rates and the carrying amount of assets and liabilities not sensitive to interest rates). This is in accordance with the regulatory criteria set out by the Bank of Spain on the determination and control of capital adequacy requirements. The impacts are shown before tax in all cases.

The first objective pursued in risk management is to maintain the net interest margin by quantifying in the short term (up to 1 year) the changes expected in light of interest rate variations. We therefore measure the sensitivity of the future net interest margin from a dynamic perspective. Thus, in addition to recognising the positions at the end of each month, we include the renewal of positions.

The second aim focuses on protecting the economic value of capital, which measures the impact of variations in interest rates on the present value of the Bank's flows arising from balance sheet positions with a long-term time frame. The fixed limits are regularly reviewed, enabling alerts to be raised regarding unwanted exposures that could significantly affect the Entity. The economic value of capital is calculated as the difference between the present value of all of the Bank's flows from asset positions and liability positions, taking into consideration the current interest rate curve.

Applying the methods and assumptions referred to in the previous paragraphs, the estimated impact of an immediate increase/decrease of 200 basis points in all Euribor terms with respect to the figures at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	2019		2018	
	Impact on Net Interest Income	Impact on the Economic Value of Capital	Impact on Net Interest Income	Impact on the Economic Value of Capital
200 b.p. increase of Euribor	180,307	875,557	141,107	863,304
200 b.p. reduction of Euribor	(79,613)	(52,623)	(13,262)	(50,800)

46. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Entity has implemented an operational risk management framework guided by the appropriate regulations, the recommendations issued by the BIS and by national and European regulators. The framework incorporates sector best practices proposed in the CERO (Spanish Operational Risk Consortium) group, in line with a profile of low tolerance towards operational risk.

The Entity currently calculates regulatory capital by applying the basic indicator approach and is analysing the impact of application of the new SMA indicator (Standardised Measurement Approach) that will be effective in 2023. Initiatives remain ongoing aimed at promoting the organisation's involvement in the different stages of operational risk management; furthering the development of a reporting system targeted not only at the lines of business and support areas, but also at senior management; continuing to feed the loss database and automating data capture, specifically data related to high-frequency and low-impact events; and having a properly documented management system.

The risk management model implemented in the Bank is based on the three lines of defence model:

(i) own management of the lines of business,

(ii) the independent risks unit and

(iii) an independent review.

- As a first line of defence: the functions that own and manage the risks. The Divisions of the business and support areas are the owners of the risks and they manage them. They are also responsible for introducing corrective measures to redress any process or control deficiencies. Using a cascaded structure, the middle managers design and implement detailed procedures that serve as controls, and supervise the execution of those procedures by the employees.
- The second line of defence: the functions that supervise the risks – risk management and compliance functions. This facilitates the introduction of effective risk management practices by the Divisions of the business and support areas and helps the risk owners to define the target risk exposure and the appropriate presentation of risk-related information throughout the organisation.
- The third line of defence: the functions that provide an independent review: Internal Audit, which reviews the effectiveness of corporate governance, risk management and internal control.

The three lines of control are implemented in a coordinated way, and fluid communication channels between all three are in place. This is an essential element in favouring an operational risk culture that meets the demands of the Bank's operational risk management.

Management structure

The Bank follows a decentralised model, where final responsibility for operational risk management lies with the business and support units. The following control bodies and general lines of responsibility have been established to govern this process:

Board of Directors

- Approve the operational risk management policy applicable to the activity of the Bank in addition to its implementing regulations, as reflected in the Operational Risk Management Functions and Policies Manual.
- Form the committees required in the Bank for adequate management of operational risk, giving details of their members and corresponding functions.
- Appoint the representatives or points of contact with the Bank's supervisory bodies in accordance with prevailing legislation.

Comprehensive Risk Commission

- Ensure that the Bank adopts an Operational Risk Management Policy that is suited to its activity based on the risk profile established in the Risk Appetite Framework.
- Ensure that adequate procedures and measures are established for the proper implementation of the guidelines set out in the Operational Risk Policies.
- Promote a culture of operational risk management in the Bank.
- Periodically monitor the management of operational risk based on the reports received from the Operational Risk Unit and inform the Steering Committee of any actions carried out.
- Monitor the level of compliance with the Operational Risk Management Policies Manual.

- Approve the procedures and systems for transferring risk management (insurance, guarantees, outsourcing, etc.) with a view to mitigating operational risks based on the Bank's risk profile, at the request of the Operational Risk Unit, which is part of the General Division of Corporate Control and Risks.

Operational and Reputational Risk Unit

The Operational and Reputational Risk Unit reports to the Comprehensive Risk Management Division, which is in turn part of the General Division of Corporate Control and Risks, and has the following main functions:

- To develop the policies, models and procedures on which the Operational Risk Management System is based.

- To design, and coordinate the implementation of the measures included in each step of the management cycle (identification and analysis, assessment, control and mitigation, monitoring and reporting) that will be applied to control the operational risk associated to main processes, systems and products.

- To design and implement methodologies for measurement of operational risk and identification of internal and external risk factors that may have an impact on operational risk.

- To monitor and, where appropriate, coordinate the measures taken to mitigate operational risk.

- To design an operational risk reporting system that guarantees the quality and consistency of the reports, adapting them to the needs of the different recipients (Senior Management, regulatory and market authorities, business and supporting units).

- To collaborate, in the capacity as Comprehensive Risk Consultant, with all organisation units and to provide them with support in the management of resources and tools for operational risk management within the organisation.

- To coordinate, and manage the necessary processes in order to ensure the appropriate identification, recording and analysis of operational events taking place in ABANCA, in compliance with the criteria defined by the Basel Committee.

- To establish the methodologies and strategies required for the definition and implementation of risk indicators to be used as alerts for operational risk management.

- To develop the models, approaches and techniques for measurement of regulatory capital allocation to each operational risk.

- To roll out a culture of ongoing improvement that is sensitive to operational risk:

    - Training and support to units.
    - Lines of collaboration with different units.
    - Measures to encourage management best practice.

Business Units

Tasked with the following functions:

- To manage the unit's operational risks and, more specifically, to identify, assess, control, monitor, analyse and mitigate the operational risks over which it has the capacity to act.
- To record and report on the operational losses incurred in the performance of its activity.
- To take part in the definition and introduction of risk indicators that can be used as alerts for operational risk management in its area.
- To study, define, prioritise and finance the operational risk mitigation plans under its management.
- To report to the Operational Risk Unit on the findings obtained in the performance of its functions.
- To maintain and test business continuity plans managed in the unit.

As mentioned previously, in the first line of defence the business/support units are responsible for the processes they manage and the associated risks. They must therefore possess an in-depth knowledge of the processes they carry out, from start to finish, understanding the needs and expectations of customers, taking responsibility for their performance and for the proper management of risks.

To strengthen this risk management model, ABANCA has defined a functional structure that is gradually being rolled out and which features two key figures with risk management responsibilities in each business and support area: i) the Comprehensive Risk Delegate, who is the fundamental key figure in charge of executing and monitoring the operational risk management cycle in the processes carried out in his/her area of responsibility, and ii) the Master Comprehensive Risk Delegate, who coordinates the activities of the Comprehensive Risk Delegate and ensures that the risk management methodology is duly applied in his/her areas of competence.

Those in charge of risk management in the different areas are assisted by a Comprehensive Risk Consultant, a professional from the Comprehensive Risk Management Area who provides advice and support in handling resources and tools for risk management at the organisation.

Operational Risk Management Policy

The Operational Risk Management System that embodies this model is structured around a set of processes supported by specialised methodologies and tools.

The basic processes that make up the system are as follows:

- Identification of latent operational risks and the controls applied.

  The purpose of this process is to prepare and maintain a global map of risks and controls that records all material exposures to operational risk.

- Assessment of operational risks.

  The purpose of this process is the regular assessment of inherent risk and residual risk by the business or support units.

- Recording of operational risk events.

  The Entity has a Loss Database (LDB) that contains the events logged at the originating entities since 2004.

  The loss database is fed through a combination of manual and automatic processes that use accounting records and information provided by the business and support units as sources of information.

- Analysis of the causes that lead to the events occurred within the Entity and of the outcome of the risk maps and controls prepared by the Bank.

  The events logged in the LDB are subject to regular analyses and these are supplemented with benchmarking processes.

- Mitigation of operational risk.

  As a result of the foregoing process, and depending on the outcome, proposals for improvement and action plans are established to reduce the residual risk and the materialisation of losses.

- Creation of reporting systems based on operational risk that enable basic management information to be reported and the use of corporate communication channels to disseminate this information within the Entity.

In this regard, the Bank continues to develop and promote several initiatives, such as "Boosting and enhancement of process owners" aiming at consolidating in Abanca the model of management by business process, which envisages, inter alia, the following:

- Dissemination of Processes and Technology DNA.
- Updating ABANCA's process map.
- Documenting processes.
- Designation and training of process owners.
- Proactive risk management.
- Implementation of products' design, delivery and operation process.
- Optimisation of key processes within the organisation.

Operational Risk is responsible for validating the risk matrix prepared for each process in accordance with the established methodology.

Operational Risk Event Type

To classify operational risk events, ABANCA uses the provisions of Regulation (EU) No 575/2013 as its benchmark. Furthermore, for the purpose of establishing uniform and comparable criteria, the Bank verifies the categories of operational risk events against the criteria proposed in the CERO (Spanish Operational Risk Consortium) group. All loss events are organised using a decision tree up to the third level of detail, assigning the type that best fits the originating cause of the operational event.
Within the framework of the ongoing improvement processes and the processes to adapt to the new regulations, the new risk categories suggested by the regulator, such as conduct, legal, ICT and other risks, are progressively incorporated.

Mitigation and control techniques

As a result of the identification and assessment of the risks that affect the areas, and based on the findings obtained, proposals for improving the existing controls that mitigate the risk are drawn up jointly with the Operational Risk Managers.

The degree of implementation of improvements/action plans is subject to regular review, and details are requested from those in charge of executing these measures. Generally speaking, the proposed improvements refer to:

- The redesign of processes, products or systems associated with a specific operational risk.
- The application of new controls or the modification of those already in place.

- The transfer of the risk through insurance policies that cover the hypothetical losses.

- The development of contingency plans.

Tools

Software tools have been developed for efficient management of operational risk and to comply with the requirements laid down in solvency regulations, the risk management recommendations issued by national and international organisations, and sector best practices.

These tools take on a two-fold approach – quantitative and qualitative – depending on the nature of the information they use:

I. The qualitative analysis uses tools for the identification, measurement and monitoring of operational risk. The aim is to be able to detect exposure to the risk and to mitigate it in advance, so that it does not manifest itself in an adverse way for the Bank.

   The main aspects on which the quantitative assessment focuses are the analysis of critical business processes, identification of the inherent risks, the controls in place to mitigate these and the establishment of ongoing improvements to operating processes and the existing control structure.

II. As regards the quantitative analysis, this is mainly based on feeding an operational events database that we have developed ourselves. In this regard, the Bank has generated a historical database of operational risk events dating back to 2004, and this database is continually updated as information is received on losses and the recovery thereof, both through procedures carried out by the Bank itself as well as through the cover provided by the insurance policies taken out.

This information is useful in determining what gave rise to the losses so as to be able to act on this for the purpose of mitigating them, and also for comparing the consistency of the qualitative assessments made with the estimates of potential losses, in terms of both frequency and severity.

47. Exposure to Other Market Risks

The Bank does not have any speculative foreign currency positions. Furthermore, the Bank does not have any material non-speculative open (unhedged) positions denominated in foreign currency.

Moreover, pursuant to the defined limit for 2019 and 2018, the net position in foreign currency must not exceed 2% of eligible capital. This limit stands at 0.06% in 2019 (0.04% in 2018).

At 31 December 2019 and 2018, the distribution of the carrying amount of the Bank's most significant financial assets: cash balances at central banks and other demand deposits; loans and advances; debt securities; equity instruments; trading and hedging derivatives; investments in subsidiaries, joint ventures and associates; and guarantees and other commitments given, broken down by geographical area, segment of activity, counterparty and purpose of the financing granted, is as follows:

At 31 December 2019 -

	Thousands of euros				
	Total	Spain	Other European Union	America	Rest of the world
Central banks and credit institutions	4,811,727	3,282,357	1,183,670	290,896	54,804
General government	8,772,413	6,150,915	2,610,069	8,801	2,628
Central Government	*5,727,602*	*3,111,706*	*2,607,081*	*8,801*	*14*
Other general government	*3,044,811*	*3,039,209*	*2,988*	–	*2,614*
Other financial companies and individual entrepreneurs	4,761,369	4,456,946	272,515	24,388	7,520
Non-financial companies and individual entrepreneurs	19,415,088	16,244,746	2,096,745	672,191	401,406
Real estate construction and property	*1,538,081*	*1,486,066*	*13,677*	*38,315*	*23*
Civil works construction	*304,737*	*304,197*	*540*	–	–
Rest of purposes:	*17,572,270*	*14,454,483*	*2,082,528*	*633,876*	*401,383*
Large corporations	*9,908,486*	*7,987,543*	*1,314,625*	*417,597*	*188,721*
SMEs and individual entrepreneurs	*7,663,784*	*6,466,940*	*767,903*	*216,279*	*212,662*
Rest of households	18,156,826	15,354,142	2,333,873	176,878	291,933
Housing	*14,743,428*	*12,918,008*	*1,540,227*	*108,241*	*176,952*
Consumer	*1,142,128*	*1,035,059*	*75,808*	*14,588*	*16,673*
Other purposes	*2,271,270*	*1,401,075*	*717,838*	*54,049*	*98,308*
SUBTOTAL	55,917,423	45,489,106	8,496,872	1,173,154	758,291
Less: impairment losses on assets not assigned to specific operations	–				
TOTAL	55,917,423				

A breakdown by Autonomous Region is as follows:

	Thousands of euros							
	AUTONOMOUS REGIONS							
	Total	Andalusia	Catalonia	Galicia	Madrid	Valencian Community	Basque Country	Other
Central banks and credit institutions	3,282,357	611	177,301	1,446,739	1,499,672	99,424	28,143	30,467
General government	6,150,915	1,313	4,442	875,763	784,510	337,269	100,730	4,046,888
Central Government	*3,111,706*	–	–	–	–	–	–	*3,111,706*
Other general government	*3,039,209*	*1,313*	*4,442*	*875,763*	*784,510*	*337,269*	*100,730*	*935,182*
Other financial companies and individual entrepreneurs	4,456,946	118,589	13,318	101,585	4,209,880	142	*169*	13,263
Non-financial companies and individual entrepreneurs	16,244,746	512,838	754,560	7,856,075	3,955,922	436,601	592,244	2,136,506
Real estate construction and property development	1,486,066	15,800	22,294	890,197	358,991	34,905	52,327	111,552
Civil works construction	304,197	1,469	77	300,317	50	589	669	1,026
Rest of purposes:	*14,454,483*	*495,569*	*732,189*	*6,665,561*	*3,596,881*	*401,107*	539,248	*2,023,928*
Large corporations	*7,987,543*	*223,807*	*502,657*	*3,263,136*	*2,346,237*	*237,987*	*343,141*	*1,070,578*
SMEs and individual entrepreneurs	*6,466,940*	*271,762*	*229,532*	*3,402,425*	*1,250,644*	*163,120*	*196,107*	*953,350*
Rest of households	*15,354,142*	*712,055*	*1,270,150*	*7,949,779*	*2,025,110*	*867,110*	*260,348*	*2,269,590*
Housing	*12,918,008*	*634,728*	*1,165,279*	*6,283,012*	*1,847,530*	*773,521*	*228,424*	*1,985,514*
Consumer	1,035,059	16,081	24,667	814,210	50,958	18,116	*8,796*	102,231
Other purposes	*1,401,075*	*61,246*	*80,204*	*852,557*	*126,622*	*75,473*	23,128	*181,845*
SUBTOTAL	45,489,106	1,345,406	2,219,771	18,229,941	12,475,094	1,740,546	981,634	8,496,714
Less: impairment losses on assets not assigned to specific operations	–							
TOTAL	45,489,106							

At 31 December 2018 -

	Thousands of euros				
	Total	Spain	Other European Union	America	Rest of the world
Central banks and credit institutions	3,872,304	2,026,894	1,596,846	167,572	80,992
General government	8,738,617	6,189,840	2,548,615	–	162
Central Government	*5,691,927*	*3,146,698*	*2,545,067*	–	*162*
Other general government	*3,046,690*	*3,043,142*	*3,548*	–	–
Other financial companies and individual entrepreneurs	4,435,759	3,893,467	497,481	23,364	21,447
Non-financial companies and individual entrepreneurs	16,795,563	14,099,302	1,850,848	575,787	269,626
Real estate construction and property	*926,390*	*914,531*	*52*	*11,785*	*22*
Civil works construction	*52,591*	*52,591*	–	–	–
Rest of purposes:	*15,816,582*	*13,132,180*	*1,850,796*	*564,002*	*269,604*
Large corporations	*9,114,050*	*7,759,137*	*838,513*	*392,739*	*123,661*
SMEs and individual entrepreneurs	*6,702,532*	*5,373,043*	*1,012,283*	*171,263*	*145,943*
Rest of households	14,254,983	13,884,847	103,393	106,612	160,131
Housing	*11,962,006*	*11,629,194*	*97,301*	*87,602*	*147,909*
Consumer	*919,950*	*904,759*	*1,785*	*4,059*	*9,347*
Other purposes	*1,373,027*	*1,350,894*	*4,307*	*14,951*	*2,875*
SUBTOTAL	48,097,226	40,094,350	6,597,183	873,335	532,358
Less: impairment losses on assets not assigned to specific operations	–				
TOTAL	48,097,226				

A breakdown by Autonomous Region is as follows:

	Thousands of euros							
	AUTONOMOUS REGIONS							
	Total	Andalusia	Catalonia	Galicia	Madrid	Valencian Community	Basque Country	Other
Central banks and credit institutions	2,026,894	50,475	97,542	482,815	1,076,008	162,463	95,047	62,544
General government	6,189,840	22,403	5,145	839,788	831,408	236,491	100,730	4,153,875
Central Government	*3,146,698*	–	–	–	–	–	–	*3,146,698*
Other general government	*3,043,142*	*22,403*	*5,145*	*839,788*	*831,408*	*236,491*	*100,730*	*1,007,177*
Other financial companies and individual entrepreneurs	3,893,467	15,317	16,106	11,535	3,848,163	213	*240*	1,893
Non-financial companies and individual entrepreneurs	14,099,302	491,799	666,131	7,258,200	3,166,427	303,051	489,299	1,724,395
Real estate construction and property development	914,531	16,962	21,949	499,704	244,182	25,702	35,195	70,837
Civil works construction	52,591	454	124	49,071	102	609	717	1,514
Rest of purposes:	*13,132,180*	*474,383*	*644,058*	*6,709,425*	*2,922,143*	*276,740*	453,387	*1,652,044*
Large corporations	*7,759,137*	*248,172*	*415,237*	*3,612,911*	*2,028,403*	*154,695*	*303,236*	*996,483*
SMEs and individual entrepreneurs	*5,373,043*	*226,211*	*228,821*	*3,096,514*	*893,740*	*122,045*	*150,151*	*655,561*
Rest of households	*13,884,847*	*651,696*	*1,297,096*	*7,667,714*	*1,459,129*	*820,052*	*235,551*	*1,753,609*
Housing	*11,629,194*	*574,405*	*1,187,768*	*6,103,498*	*1,310,981*	*723,004*	*203,256*	*1,526,282*
Consumer	904,759	12,836	22,700	735,507	40,367	16,359	*7,553*	69,437
Other purposes	*1,350,894*	*64,455*	*86,628*	*828,709*	*107,781*	*80,689*	24,742	*157,890*
SUBTOTAL	40,094,350	1,231,690	2,082,020	16,260,052	10,381,135	1,522,270	920,867	7,696,316
Less: impairment losses on assets not assigned to specific operations	–							
TOTAL	40,094,350							

48. Customer Service Department

In compliance with the existing regulation, the Board of Directors of the Bank approved, at the meeting held on 14 September 2011, the establishment of Customer Service Department for the Bank, whose structure and operation is governed by the Regulation approved at the above mentioned meeting and by the provisions of Law 44/2002, of 22 November, on Measures for the Reform of the Financial System, and of Ministerial Order ECO 734/2004, of 11 March, on customer service departments and customer's ombudsmen in financial institutions.

The purpose of the Customer Service Department is to process and resolve any claims or complaints submitted to the Bank, either directly or through representation, by Spanish or foreign individuals or legal entities that are customers or users of the Bank's financial services, provided that such complaints or claims refer to their legally recognised interests and rights, whether deriving from contracts, regulations governing transparency and customer protection, or from financial best practice, and, in particular, those relating to fair service.

This Department must also provide the Organisation with recommendations and suggestions based on its experience, as set out in the aforementioned Ministry of Economy Order, on those issues that could improve and strengthen the trust between the Bank and its customers.

Customer services are provided by a specific department that forms part of the Bank 's Legal Advisory Area, which is independent from the other functional units of the Bank with respect to actions and decisions, thus avoiding any conflicts of interest.

The most relevant figures for claims and complaints received from customers in 2019 and 2018 are shown below:

Financial year 2019

Complaints received	Complaints Resolved (*)	Complaints Resolved In favour of the customer	Complaints Resolved Submitted Online	Average Resolution Time (days)
14,904	14,801	6,954	3,731	18

(*) Including resolved claims that were received in 2018.

Financial year 2018-

Complaints received	Complaints Resolved (*)	Complaints Resolved In favour of the customer	Complaints Resolved Submitted Online	Average Resolution Time (days)
14,076	14,266	5,857	2,949	19

(*) Including resolved claims that were received in 2017.

The types of complaints received are as follows:

Complaint Type	Number	
	2019	2018
Credit Products	3,991	4,912
Deposit products	5,319	4,100
Other banking products	3,352	2,459
Collection and payment services	328	283
Investment services	110	150
Insurance and plans	899	927
Other	905	1,245
Total	**14,904**	**14,076**

It should be noted that despite establishing general criteria for decision-making, the Bank always takes the particular circumstances of each claim and each customer or user into consideration, performing a thorough analysis of the documentation and information available in each case.

The decision-making criteria used by the Customer Service Department are based on the resolutions issued by the Bank of Spain, the Spanish National Securities Market Commission and the Directorate General of Insurance and Pension Funds regarding similar cases, as well as the Customer Service Department's own Management Policy, which has the following basic principles:

- The priority of the Customer Service Department is to deal with customers and users that are dissatisfied with one of the Bank's products or services, and to give a reasoned response to each of these parties.

- The Customer Service Department seeks to attend to each customer in the shortest possible time, giving individual and personalised customer care in each case.

- It likewise undertakes to comply with and to ensure that the rest of the organisation complies with the legislation and regulations governing customer services.

- The Customer Service Department promotes a policy of raising awareness among all units of the organisation of how to deal with customers and users, based on the principles of best practice and transparency.

Decisions are made in accordance with internal and external regulations, pursuant to contractual clauses, transparency and customer protection standards and financial best practice. The conclusions drawn must enable a clear and accurate response to the problem.

Decisions are always focused on reaching a fair solution for the parties involved, as well as maintaining mutual trust between them.

The Bank's Board of Directors believes that the claims pending a decision at the close of 2019 will not give rise to payments having a significant effect on these consolidated financial statements.

49. Conflicts of Interest Concerning the Directors

The Directors of the Bank and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Consolidated Companies Law.

In 2019, directors have refrained from taking part in the discussion of, and voting on matters addressed by the Board of Directors or by its Committees on 12 instances. Of the above mentioned instances, 5 instances related to investment proposals, financing proposals or other risk transactions with companies related to several directors; 4 instances related to remuneration issues; and 3 instances related to other transactions with related parties.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Subsidiaries at 31 December 2019

Company	Address	Activity	Percentage of Voting Rights Controlled by the Bank	Thousands of euros						
					Investee Data (*)					
				Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
ABANCA Corporación División Inmobiliaria, S.L.U.	A Coruña	Real estate management	100.00%	603,333	838,757	41,922	796,835	42,379	Dec. 19
ABANCA Corporación Industrial y Empresarial, S.L.U.	A Coruña	Holding	100.00%	1,295,183	1,182,122	17,072	1,165,050	36,926	Dec. 19
Complejo Residencial Marina Atlántica, S.L.	A Coruña	Real estate	100.00%	–	3,341	2	3,339	(139)	Dec. 19(*)
Sogevinus, S.G.P.S., S.A.	Oporto	Holding - Wineries	100.00%	75,450	150,567	64,014	86,553	1,379	Dec. 19
Natur Spa Allariz, S.A.	Allariz	Hospitality	94.11%	–	3,444	2,188	1,256	(6)	Dec. 19
Sentir Común México, S.A. DE C.V. SOFOM	México	Financing	4.36%	–	85,297	98,844	(13,547)	(21,406)	Dec. 19
ABANCA Servicios Financieros, E.F.C. S.A.	A Coruña	Financing	99.00%	38,886	355,560	329,318	26,242	1,315	Dec. 19
Laborvantage - Investimentos Inmobiliários, LDA	Oporto	Real estate	100.00%	19,838	27,559	229	27,330	2,838	Dec. 19
Simeon Sacv México	México	Financing	100.00%	–	132	134	(2)	(12)	Dec. 18
Simeon Inversiones CA Venezuela	Venezuela	Financing	100.00%	–	–	–	–	–	Dec. 18

(*) Data taken from the latest available unaudited interim financial statements Where financial statements for 2019 are not available, the column "Financial Statements Date" shows the date of the latest available financial statements. Profit/loss for the year relates to the contribution since the date of inclusion within the consolidation perimeter.

This Appendix forms part of Note 12 to the financial statements at 31.12.19.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Subsidiaries at 31 December 2018

Company	Address	Activity	Percentage of Voting Rights Controlled by the Bank	Thousands of euros					
				Net Carrying amount	Investee Data				
					Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
ABANCA Corporación División Inmobiliaria, S.L.U.	A Coruña	Real estate management	100.00%	617,163	853,703	108,439	745,264	(9,520)	Dec. 18
ABANCA Corporación Industrial y Empresarial, S.L.U.	A Coruña	Holding	100.00%	1,215,183	1,122,481	15,742	1,106,739	276,171	Dec. 18
Su Inmobiliária Unipessoal LDA.	Oporto	Real estate	100.00%	2,076	2,416	13	2,403	(21)	Dec. 18
Arboretum - Investimentos Inmobiliários, S.A.	Oporto	Real estate	100.00%	8,320	8,630	16	8,614	(117)	Dec. 18
Complejo Residencial Marina Atlántica, S.L.	A Coruña	Real estate	100.00%	–	3,666	188	3,478	225	Dec. 18(*)
Instituto de Educación Superior Intercontinental de la Empresa, S.L.	A Coruña	Training	100.00%	8	8	3	5	–	Dec. 18(*)
Sogevinus, S.G.P.S., S.A.	Oporto	Holding - Wineries	100.00%	68,000	138,920	61,156	77,764	1,595	Dec. 18
Natur Spa Allariz, S.A.	Allariz	Hospitality	94.11%	–	3,597	2,335	1,262	(61)	Dec. 18
Sentir Común México, S.A. DE C.V. SOFOM	México	Financing	4.36%	68	69,416	68,871	545	(827)	Dec. 18(*)
ABANCA Servicios Financieros, E.F.C. S.A.	A Coruña	Financing	99.00%	38,885	229,360	204,433	24,927	(618)	Dec. 18
Laborvantage - Investimentos Inmobiliários e Turísticos, LDA	Oporto	Real estate	100.00%	19,838	35,002	10,526	24,476	98	Dec. 18

(*) Data taken from the latest available unaudited interim financial statements. Profit/loss for the year relates to the contribution since the date of inclusion within the consolidation perimeter.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Associated companies at 31 December 2019

Company	Address	Activity	Percentage of Voting Rights controlled by the Bank	Thousands of euros						
					Investee Data (*)					
				Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
Cidade Tecnolóxica de Vigo, S.A.	Vigo	Infrastructures	25.07%	670	11,396	2,223	9,173	(37)	Dec. 19
Cidade Universitaria, S.A.	Vigo	Infrastructures	32.43%	1,850	8,641	1,690	6,951	(72)	Dec. 19
Obenque, S.A.	Madrid	Real estate	26.98%	–	526	2	524	191	Dec. 19
Parque Tecnológico de Galicia, S.A.	Orense	Technological park	37.34%	898	13,684	3,783	9,901	92	Dec. 19
Raminova Inversiones, S.L.	Pontevedra	Holding	50.00%	–	29,086	26,700	2,386	(567)	Dec. 14(*)
Imantia Capital, SGIIC. S.A.	Madrid	CIS Management Company	20.57%	1,250	42,810	32,944	9,866	2,472	Dec. 19
Terminal de Graneles Agroalimentarios de Santander, S.A.	Santander	Transport and Storage	31.56%	–	18,028	12,952	5,076	(88)	Oct. 19
Nueva Pescanova, S.L.	Pontevedra	Wholesale trade	40.66%	91,744	938,218	871,764	66,454	(32,229)	Dec. 19

(*) Data taken from the latest available unaudited interim financial statements. Where financial statements for 2019 are not available, the column "Financial Statements Date" shows the date of the latest available financial statements. Profit/loss for the year relates to the contribution since the date of inclusion within the consolidation perimeter.

This Appendix forms part of Note 12 to the financial statements at 31.12.19.

ABANCA Corporación Bancaria, S.A. (“ABANCA”)

Associates At 31 December 2018

Company	Address	Activity	Percentage of Voting Rights controlled by the Bank	Thousands of euros						
					Investee Data (*)					
				Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
Cidade Tecnolóxica de Vigo, S.A.	Vigo	Infrastructures	25.07%	670	11,874	2,613	9,261	(63)	Dec. 18
Cidade Universitaria, S.A.	Vigo	Infrastructures	32.43%	1,850	8,757	1,734	7,023	(41)	Dec. 18
Obenque, S.A.	Madrid	Real estate	26.98%	–	721	388	333	(220)	Dec. 18
Parque Tecnológico de Galicia, S.A.	Orense	Technological park	37.34%	898	14,058	4,142	9,916	124	Dec. 18
Raminova Inversiones, S.L.	Pontevedra	Holding	50.00%	–	29,086	26,700	2,386	(567)	Dec. 14
Imantia Capital, SGIIC. S.A.	Madrid	CIS Management Company	20.57%	1,250	19,780	12,022	7,758	2,003	Dec. 18
Terminal de Graneles Agroalimentarios de Santander, S.A.	Santander	Transport and Storage	31.56%	–	19,008	13,229	5,779	(513)	Dec. 18
Nueva Pescanova, S.L.	Pontevedra	Wholesale trade	30.81%	64,817	955,355	843,241	112,114	5,446	Dec. 18

(*) Data taken from the latest available unaudited interim financial statements. Where financial statements for 2018 are not available, the column “Financial Statements Date” shows the date of the latest available financial statements.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

ABANCA Corporación Bancaria, S.A. securitisation funds.

At 31 December 2019:

Securitisation Fund	Entity	Origination date	Total exposures securitised at origination date	Total securitised exposures at 31.12.2019
HT ABANCA RMBS II FT	ABANCA CORPORACIÓN BANCARIA, S.A.	12/2017	900,000	778,906
HT ABANCA RMBS I FT	ABANCA CORPORACIÓN BANCARIA, S.A.	05/2016	900,000	762,585
IM BCG RMBS 2 FT	ABANCA CORPORACIÓN BANCARIA, S.A. (*)	11/2013	1,300,000	866,663
			3,100,000	2,408,154

(*) Addition arising from business combinations.

At 31 December 2018:

Securitisation Fund	Entity	Origination date	Total exposures securitised at origination date	Total securitised exposures at 31.12.2018
HT ABANCA RMBS II FT	ABANCA CORPORACIÓN BANCARIA, S.A.	12/2017	900,000	845,392
HT ABANCA RMBS I FT	ABANCA CORPORACIÓN BANCARIA, S.A.	05/2016	900,000	801,954
			1,800,000	1,647,346

This Appendix forms part of Note 9 to the financial statements at 31.12.19.

1. Scope, sphere and global framework of Management Report

This management report of ABANCA Corporación Bancaria S.A. (hereinafter ABANCA or the Entity) describes the initiatives, business performance and results of the Entity's operations in 2019.

2. Economic, financial and regulatory environment

Economic environment

The economic environment in which ABANCA has carried out its activity in 2019 has been marked by the moderation of growth rates:

- In 2019, the global economy was limited by a scenario of trade and geopolitical tensions that has resulted in an overall weakening of activity and, in particular, of industrial production. In this context, global GDP growth rate has been estimated to have slowed down to 2.9%, seven tenths less than in 2018. This downturn has affected both emerging and developed economies.

- In Europe, growth rate in the Eurozone was 1.2% in 2019, seven tenths compared to the preceding year. The economic slowdown affected the major European countries, although its impact was more severely suffered by countries with stronger industrial sectors and export-oriented economies, such as Germany (GDP +0.6%) and Italy (GDP +0.2%).

- This global slowdown environment also affected the Spanish economy, although it continued to show a greater dynamism than other major developed economies. Spain's GDP grew by 2.0% during the reporting period, four tenth less than in 2018. Domestic demand moderated, due to the lower momentum of private consumption and investments (with a stronger decline in construction), whereas public consumption accelerated slightly. External demand reversed its traditional role and, notwithstanding the global adverse scenario, contributed positively to growth.

- Labour market continued to perform positively, although job creation rates moderated consistently with the slower growth of economic activity. The Active Population Survey data show a 2.1% year-on-year rise in employment in Spain in the fourth quarter, with an annual average of 451.6 thousand new jobs created, compared to 502.9 thousand in 2018. This trend is reflected in a further reduction in joblessness, with the unemployment rate pushed down to 13.8%, six tenths less than the preceding year.

- Meanwhile Galician economy registered a slower momentum than the rest of Spain, with GDP growing by 1.7% (estimate) in 2019, compared to 2.2% the preceding year. In Galicia, job creation followed the pace of business, growing by 0.7% year-on-year, representing 17.6 thousand more people at work on the year as a whole (24.9 thousand in 2018). Unemployment rate remains in Galicia below the Spanish average, and closed 2019 at 11.7% compared to 12.0% at the end of 2018.

- In Spain, inflation rate remained throughout the year at contained levels. In December, general inflation stood at 0.8% year-on-year, while underlying inflation continued two tenths higher, at 1.0% year-on-year.

Financial environment

- In September, the European Central Bank approved a package of expansionary measures to promote the inflation rate convergence towards its defined target over the medium term. In particular, the ECB approved a 10 basis points reduction in the interest rate on the deposit facility to -0.5%, to resume the asset purchase programme and to change the modalities of the new series of quarterly targeted long-term refinancing operations (TLTRO-III). The ECB also introduced a two-tier system for the remuneration of banking institutions' reserves.

- In this context, and anticipating a more flexible trend in monetary policy, 12-month Euribor fell in August to a new all-time low (-0.40%) and subsequently began a slow recovery, closing the year at -0.25% (compared to -0.12% at the end of 2018).

- Spain's risk premium remained at moderate levels, with a downward trend throughout 2019, closing the year at 66 basis points, compared to 117 basis points in December 2018.

- Retail credit in Spain reduced its balance by 0.8% in 2019, still suffering the effects of the Spanish economy deleveraging process. The balances of corporate credit and retail credit associated to house purchase contracted by 1.5% and 0.7%, respectively, while consumer loans registered an increase in outstanding balance (+0.3%), boosted by private consumption. New retail loans production grew by 0.6% during the year, advancing both in personal loans (+1.5%) and corporate loans (+0.4%).

- The balance of retail deposits increased by +4.9% in 2019, although the outflow of term deposit funds to demand deposits continued. Resources managed by investment funds registered a 7.4% increase on the year as a whole, basically thanks to the revaluation effect (which contributed 91% of equity growth).

Regulatory environment

In 2019, new regulations with an impact over the banking industry were as follows:

- Law 5/2019, of 15 March, on Real Estate Credit Contracts.

  This law introduces measures for the protection of borrowers, including provisions concerning transparency in the marketing of loans and in the conduct of lenders, credit brokers or designated agents. The law also contains the legal regime of, and the penalty system for real estate credit brokers, their designated agents and real estate lenders.

- Ministerial Order ECE/228/2019, of 28 February, concerning basic payment accounts, the procedure for switching payment accounts and the requirements for comparison web sites.

- Royal Decree 164/2019, of 22 March, establishing a free-of-charge system of basic payment accounts for vulnerable people or people at risk of financial exclusion.

- Bank of Spain Circular 2/2019, of 29 March, on the requirements of the Information Document on Fees and the Fees Statement, and the requirements for payment account comparison web sites, and amending Circular 5/2012, of 27 September, addressed to credit institutions and payment services providers, on the transparency of banking services and responsible lending.

  The 3 above-mentioned regulations develop the provisions of Royal Decree-Law 19/2017, of 24 November, on basic payment accounts and comparability of fees, that transposed into Spanish law the contents of Directive 2014/92/EU of the European Parliament and of the Council, of 23 July 2014, on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

- Decision (EU) 2019/1311 of the European Central Bank, of 22 July 2019, on a third series of targeted longer-term refinancing operations, as amended by Decision (EU) 2019/1558 of the European Central Bank of 12 September 2019.

  This decision intends to preserve favourable bank lending conditions, ensure the smooth functioning of the monetary policy transmission mechanism and further support the accommodative stance of monetary policy.

- Directive (EU) 2019/2162 of the European Parliament and of the Council, of 27 November 2019, on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

  This directive seeks to establish a minimum set of mandatory harmonisation requirements for covered bonds in the European Union.

3. Relevant events in 2019

- Dated 10 May 2019, the Bank issued a Relevant Event to inform that Bank of Spain had officially notified the minimum requirement for own funds and eligible liabilities ("MREL") to be met, on a consolidated basis, by ABANCA Corporación Bancaria, S.A.; this minimum requirement had been determined by the Single Resolution Board (SRB).

  The requirement was set at 10.55% of the aggregate of consolidated liabilities and own funds, calculated on the basis of the information reported 31 December 2017, and should be met not later than 1 January 2022.

  Based on the information reported 31 December 2017, MREL on a consolidated basis would amount to 20.06& of risk-weighted assets.

  The MREL decision is aligned with ABANCA forecasts and with the financing plan included in ABANCA's strategic plan.

- Dated 9 June 2019, upon fulfilment of all conditions precedent and after receiving the required authorisations from the regulatory authorities, the purchase of Deutsche Bank's Private & Commercial Business ("PCB") Portugal retail banking unit by ABANCA Group was formally completed. Following the integration process, which has been completed smoothly and without any impact on services rendered to customers, the Bank begins a new phase in the Portuguese market.

- The Annual General Meeting of Shareholders of ABANCA Corporación Bancaria, S.A., held on 10 June 2019, approved the merger through absorption of ABANCA Holding Financiero, S.A. (absorbed company) and ABANCA (absorbing company), in which the former will be terminated and transfer its assets and liabilities in bloc and to the latter, in the capacity of universal successor; the merger transaction is expressly subject to payment of dividends out of reserves as a condition precedent in accordance with the common draft terms of merger approved by the Boards of Directors of both merging companies.

- In the insurance business, two events stand out in 2019.

    - On 8 July 2019, ABANCA and Crédit Agricole Assurances presented the 30-years partnership agreement to operate in the Spanish and Portuguese general insurance markets through a 50/50 joint-venture.

    - On 22 October, the entity launched ABANCA Vida y Pensiones, the vehicle through which the entity manages life insurance contracts and pension plans of its customers. To this end, the entity completed the internalisation of all processes, in order to avoid the intervention of external providers.

- Dated 1 September, ABANCA gained control over Banco Caixa Geral and, accordingly, that date is taken as a benchmark for the accounting consolidation of the new business combination.

- On 22 September, ABANCA became one of the Founder Signatories of the Principles for Responsible Banking launched by the Financial Initiative of the United Nations Environment Programme (UNEP-FI). By adhering to the UNEP-FI, the Group openly acknowledges its active role in the creation of a sustainable economy and undertakes to integrate environmental and social considerations.

  This initiative falls within the strategic framework for Social Corporate Responsibility and will step up the entity's work in the area of Sustainable Development Goals (SDGs) and Paris Climate Agreement.

- On 14 October 2019, the Boards of Directors of ABANCA Corporación Bancaria, S.A. and Banco Caixa Geral, S.A. approved the common draft terms of merger. This merger, of companies from the same group, takes place through the absorption of Banco Caixa Geral, S.A. (absorbed entity) by ABANCA Corporación Bancaria, S.A. (absorbing entity).

- Dated 9 December 2019 the Bank issued a Relevant Event to inform about the European Central Bank's decision regarding minimum prudential capital requirements for 2020 applicable to the various supervised levels, following the results of the Supervisory Review and Evaluation Process (SREP).

  The decision sets a minimum Common Equity Tier 1 Regulatory capital (CET1 phase-in) requirement of 8.75% and a minimum phase-in Total Capital requirement of 12.25%. These requirements include:

  i) a Pillar 1 minimum general requirement of 4.50% of CET1 and 8.00% of Total Capital;
  ii) a Pillar 2 requirement of 1.75%; and
  iii) a general requirement of 2.5% as capital conservation buffer.

  ABANCA Corporación Bancaria, S.A. current capital ratios are significantly above ECB regulatory requirements and, accordingly, do not entail the activation of any regulatory restriction to payment of dividends, variable remuneration or coupons to holders of additional tier 1 capital securities.

- In 2019, the following securities issues were completed:

  - On 11 January 2019, ABANCA reopened the European market for subordinated debt, by laying down the economic conditions for an issue of €350 million in subordinated notes (Fixed Rate Reset Subordinated Notes). This issue was paid up and closed on 18 January 2019. Likewise, on 26 September, ABANCA laid down the economic terms for an issue of €300 million in subordinated notes (Fixed Rate Reset Subordinated Notes). This issue was paid up and closed on 7 October 2019. These securities will respectively mature on 18 January 2029 and 7 April 2030, subject to the Group's option to redeem them early under certain circumstances. With these two issues ABANCA has met the buffer requirement of subordinated debt classified as Tier 2.

    The securities issued are eligible as Tier 2 capital instruments, in accordance with the provisions of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions and in accordance with the criteria of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

  - Additionally, on 28 May 2019, ABANCA raised €750 million with an issue of mortgage covered bonds. The securities issued met the necessary eligibility requirements of the ECB and are classified as level 1 for LCR purposes.

- Changes in ABANCA's credit ratings in the twelve months of 2019 were as follows:

  - Standard & Poor's upgraded (18-03-2019) the rating of ABANCA mortgage-covered bonds to AA (up from AA-), and later in the year (04-10-2019) upgraded again the rating to AA+ with a stable outlook.

    Taking into account the current sovereign rating, the AA+ rating with a stable outlook is Standard & Poor's highest possible rating for Spanish mortgage-covered bonds.

    On 10 September 2019, this rating agency upgraded from stable to positive the outlook in ABANCA rating. S&P confirmed its long-term and short-term issuer ratings of BB+ and B, respectively.

  - Fitch Ratings (19-03-2019) upgraded ABANCA long-time issuer rating to BBB- up from BB+, thereby rating it as investment grade with stable outlook.

  - On 18 July 2019, DBRS Ratings upgraded ABANCA long-term issuer rating to BBB up from BBB (low), and ABANCA short-term issuer rating to R-2 (high) up from R-2 (middle), both ratings with a stable outlook.

  - On 1 October 2019, Moody's Investor Service upgraded ABANCA long-term rating from Ba2 to Ba1 retaining the Positive outlook.

    As a result of the upgrade in the long-term issuer rating, on that same date Moody's upgraded the rating of ABANCA mortgage-covered bonds from Aa2 to Aa1.

4. Activities of ABANCA Group entities at 31 December 2019

4.1. Strategy

2019 has been ABANCA (and its Group) second year under the 2018-2020 Strategic Plan that defined the bank's Vision and its materialisation into the strategic priorities for the three-year period:

"Becoming a financial and welfare institution renown for its customers' experience for a comprehensive satisfaction of their financial and insurance needs, from anywhere in the world and using any channel, thanks to a leading Mobile Banking service and a lean, simplified and efficient organisation that leverages on digitalisation and an innovative culture. To be a bank with recurring profits consistently placing its ROE above its cost of capital".

To achieve this vision, the Entity defined three basic strategic axes:

- Transformation of the organisation, promoting a leaner, more agile and cooperative structure to support an innovative culture, and further advance in the digitalisation process with an impact on efficiency levels and on customer service levels.
- Improving customer experience, promoting a multi-channel relationship with similar service levels irrespective of the channel used by the customer in its relations with the Entity, with high quality standards allowing to strengthen the offer of value-added products and the engagement levels supported by the competitive advantage represented by the bank's Mobile Banking business.
- To increase recurrent return on capital by fostering the insurance business as a first level strategic priority, by paying special attention to consumer finance and payment means after the integration of ASF, and by becoming the reference bank for business and SMEs. To develop ABANCA current capabilities in order to increase the business volume and to exploit any market opportunities that may arise and enable the Entity to achieve inorganic growth through companies contributing to the Entity's business model and aligned with the defined strategic goals. All the foregoing will be achieved while optimising use of capital, expanding the business to markets more profitable than Spain and maximising the management of problematic risk.

The target is to achieve sustained growth rates and to outperform the market, in particular in value-added products (insurance, investment funds and pension plans) and in SMEs and consumer finance; growth rates that should take the bank's business volume above €90,000 million by 2020, after taking into account recent acquisitions (Deutsche Bank's Private & Commercial Business ('PCB') Portugal and Banco Caixa Geral, S.A.).

During this second year, the Plan's targets for 2019 have been met, with the following noteworthy milestones:

- In 2019, the objectives of the Strategic Plan have been met in a 99%, in a 101% for financial perspective, and the levels achieved are quite close to target for customer relations, learning and growth, or process improvement.
- Growth with sustained returns: net profit has exceed by 34 million the target. The target for net interest income was met in a 99%, due to the impact of changes in the interest rate curve, while the targets for fee and commission income and the insurance business were exceeded. The improvement of recurring income, together with technological efforts and cost control made, allowed for both ROE and ROTE to be above the defined targets.
- Commercial dynamism, focused on micro and value-added products: Financing to SMEs and self-employed workers remained a pillar for credit growth, with a 9 basis points increase in thus segment's market share in Spain. In 2019, the weight of >€1 million financing transactions stood at -234 b.p. compared to the system, consolidating the turn to micro

(47.8% vs 50.1%). In value-added products, the bank increased its market share in investment funds (+8 b.p.), personal pension plans (+2 b.p.) and life savings insurance (+7 b.p.).

- Risk quality: NPL ratio has been reduced to 2.8%, exceeding the plan's target; the bank's NPL ratio is currently below the average of the Spanish industry and in line with the European average, with one of the industry's higher coverage of non-performing assets (NPLs and foreclosed).
- Solvency and liquidity: ABANCA closed 2019 with a CET1 aligned with the 13% benchmark defined in the 2018-2020 Strategic Plan. The financing structure is clearly based on retail deposits.

4.2. Business and results

At the end of December 2019, ABANCA Corporación Bancaria statement of financial position stands at €58,972 million. The Entity's non-performing loan ratio remained below the industry average, while coverage of these assets has increased to 56.7%.

a) Results

ABANCA has posted a net profit of €359.4 million.

In 2019, the more recurring income items from the statement of profit or loss of ABANCA have continued to perform well, as shown by the 6.5% increase in net interest income and 18.2% increase in net fee and commission income. These two items have pushed core revenues up to €715.2 million, a 9.4% increase compared to the same period a year ago.

Similarly, net gains on financial assets and liabilities amounted to €84.4 million, while exchange gains totalled €5.0 million and dividend income was €4.7 million.

In 2019, operating expenses rose to €585.4 million, due to an increase in ABANCA investments in strategic projects aiming at strengthen both the technological capabilities and the financial and revenue generating profile of the entity.

In 2019, ordinary impairment was €60.3 million, leaving ABANCA cost of risk below that of its main competitors. In addition to this allowance, during the reporting period ABANCA has appropriated provisions, other than for credit losses, amounting to €55.7 million. These provisions are mainly intended to cover the cost of achievement associated with the necessary investments for completion of the Banco Caixa Geral integration, and have been offset by the gains from recoveries achieved by ABANCA during the period (€47.6 million).

Lastly, during the reporting period ABANCA has posted a negative goodwill of €231.7 million arising from the recently acquired businesses: Deutsche Bank's Private & Commercial Business ('PCB') Portugal and Banco Caixa Geral, S.A. ("BCG").

b) Business

Throughout 2019 the above-mentioned integrations of PCB and BCG businesses were completed, a circumstance that has led to the significant increases recorded in the main items of the Entity's statement of financial position.

At the end of December 2019, loans to performing customers amounted to €36,726.2 million, with a 21.9% increase on the same period last year.

The fixed-income portfolio stands at €10,105.4 million, down by 5.3% compared to December 2018; this figure is in line with the Entity's policy of optimising the weight of this item in the statement of financial position.

At year-end, customer deposits stood at €50,282.4 million, a 23.4% year-on-year increase. With regards to the composition of those balances, as a result of the current environment of minimum interest rates, on demand deposits and off-balance sheet resources continued to gain weight compared to term deposits. Particularly noteworthy was the performance of off-balance sheet resources, which at the end of 2019 stood at €10,062.6 million (a 57.9% increase compared to December 2018).

c) Risk quality, solvency and liquidity

At the end of December 2019, ABANCA non-performing loans had decreased by €68 million, down by 6.3% compared to the same period in the preceding year. This figure has been achieved, even though during the reporting period the integration of PCB and BCG business was completed.

At the end of December, the balance of the credit loss allowance stands at €575.0 million, leaving the non-performing loans coverage ratio at 56.7%.

ABANCA's solvency level continues to be broadly above the requirements of the regulator.

The Entity easily meets ECB requirements in terms of both short-term Liquidity Coverage Ratio (LCR) and long-term Net Stable Financing Ratio (NSFR).

d) Other information

At the end of 2019, ABANCA had an operational network of 727 branches in Spain, of which 536 are located in Galicia and 191 across the rest of Spain.

At the end of December, ABANCA had 44 branches (and another 27 points of sale in Portugal, thanks to the integration of PCB business). This purchase has allowed the Entity to strengthen its position in a territory sharing many features and cross-business with ABANCA's traditional territory.

ABANCA presence is completed with a further two branches, in Switzerland and Miami, and with representative offices in Brazil, Mexico, Panama, Venezuela, Switzerland, Germany, Great Britain and France.

At the end of 2019, the number of ATMs exceeds one thousand two hundred; the number of POS terminals in stores is about 40 thousand, and the number of credit and debit cards is well above 2 million.

Furthermore, at the end of 2019, ABANCA had 5,598 employees.

4.3. Non-financial and diversity-related information

Dated 28 December 2018, Law 11/2018 amending the Commerce Code; the recast text of the Corporations Law, as approved by Royal Legislative Decree 1/2010, of 2 July; and, Law 22/2015, of 20 July, on Auditing, as regards non-financial information and diversity, was approved to transpose the European regulations contained in Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

ABANCA Corporación Bancaria, S.A presents the mandatory non-financial information in a separate report entitled "ABANCA Corporate and Social Responsibility Report 2019".

5. Exposure to market, credit, liquidity, interest rate, currency and operational risk

For each of the risk types attaching to in its financial activities, ABANCA has defined general policies and limits, set out in its internal management manuals, together with a framework of powers and delegation thereof, in order to facilitate decision-making. The limits for each area of risk are defined so as to reduce capital consumption, in accordance with the retail profile of the entity.

At the end of December 2019, the most relevant aspects relating to the policies and limits for each type of risk exposure are as follows:

- Market Risk: Management thereof is based, on the one hand, in the segregation of functions between the risk-taking areas and those in charge of risk measurement and control, and on the other hand, in establishing limits to permitted activities and risks to be assumed in terms of positions, potential losses and results (using the VaR method). At the same time, analyses are conducted to test sensitivity to variations in market prices, as well as scenario analysis, or stress-testing. At 31 December 2019, the value at risk of the trading portfolio stood at €500 thousand.

- Credit Risk: Credit risk control relies on the following pillars: i) objectivity, independence and an overview in decision-making; ii) a global system to limit concentration by customers, and exposure by segments, sectors, guarantees, countries, etc.; iii) a decentralised loan approval system that combines an individual expert analysis with the use of appropriately validated statistical systems and models that are supervised in accordance with the policies of the Bank; iv) involvement of the governing bodies and senior management in decision-making; v) ongoing monitoring of the quality of the investment by the entire structure of the entity. At 31 December 2019, ABANCA had loans totalling €1,015 million classified as non-performing, for which provisions of €575 million have been registered.

- Liquidity risk: Management thereof is based on the existence of an annual liquidity plan designed on the basis of the analysis of scenarios and maturities, that takes into account not only normal market situations but also other contingencies that may occur and that are transferred to the contingency plan. Liquidity risk control focuses on checking the availability of liquid assets sufficient to cope with potential liquidity stress situations and daily monitoring of the liquidity position through indicators, alerts and stress analysis. Liquid assets amounted to €7,868 million at the end of December 2019, a volume that allows x 2.3 cover of the total net issues of treasury stock.

- Interest rate risk: For its control, models are used to establish limits and determine the sensitivity of the financial margin and the economic value of the entity to variations in the interest rate. At the end of December 2019, a 200 b.p. rise in interest rates would have a positive effect of €875 million on the economic value and a positive impact of +€180 million on net finance income.

- Currency risk: Currency risk is managed by setting limits to global exchange positions in the currencies of greater relevance in international operations; at 31 December 2019, the equivalent value in euros of the global position of ABANCA was 0.06% of own funds, well below the maximum threshold of 2%.

- Operational Risk: Management practices are geared towards identifying, assessing and mitigating the operational risk attaching to all relevant products, activities, processes and systems in order to afford the Bank greater control over the risks to which it is exposed, backed by the management tasks carried out by the business and support units and by the independent corporate function performed by the Operational Risk unit.

6. Research, development and innovation activities

In 2019, the Bank has continued some of the strategic actions initiated in 2015 focused on the digital transformation of ABANCA, and has launched some new actions.

The most relevant lines of work include:

- Technological Renovation: the 2018-2020 Plan continues with the objective of systems optimisation (Core Software, Applications and Infrastructure) in order to ensure adaption to the latest technological developments, integration of leading international solutions renowned for their user-friendliness and security, and implementation of best practices in Banking functions.

- RPA Automation: In 2019, the Entity has continued automating processes. The automation of processes has led to a significant increase in productivity in different areas of the Bank, both in business and back-office, as well as to a reduction of operational risk, the improvement of response times to customers in some tasks and to a substantial reduction of the administrative work-load.
- Corporate online banking: The dedicated web site for legal persons, self-employed workers and professionals has been re-designed to adapt it to a structure based on customer segmentation. The new web-site allows customers to identify their respective needs and the solutions offered by ABANCA for every customer segment. Additionally, changes have been made to adapt our payment methods to the requirements of PSD2.

- Implementation of TIPS technology: By adapting to use TIPS (Target Instant Payment Settlement) technology, ABANCA consolidates its technological leadership and has become the first entity certified by the Bank of Spain to operate on EBC's new instant payment platform.

- Mobile Banking: The Mobile Banking of ABANCA is a product in constant evolution, with a defined roadmap that allows us to increasingly move towards digital transformation. In addition of the improvement of the existing functions, over the past few months the Entity has introduced in Digital Space new functions that facilitate branch-user interactions and user access to the available correspondence and contracts. The new functions are:
    1. Deferred Signature, allowing users to complete the contracting process at different times and from different locations.
    2. Remote application for/submission of documents.
    3. Application of flat-rate insurance and display of the customer's insurance portfolio.
    4. Access to the catalogue of products available for contracting or to request an appointment.
    5. The possibility of activating or de-activating certain insurance products contracted by customers is enabled to allow customers to use those insurance products over the specific time horizons aligned with their needs.
    6. The system now supports the operation of credit current accounts.
    7. The system now support instant transfers.

- "Alavuelta" service: The entity has implemented a new service for customers that places ABANCA has a reference in advanced analytics, since this new service places Big Data at the service of 'trade'. This service intends to provide businesses with 360° information of all transactions made, as well as comprehensive information on their sales, comparison with their respective industries and area of influence, thereby allowing to gain a greater knowledge of their respective customers.

- Samsung Pay has been connected to Visa International platform, this will enable users to use the following new services:
    1. Payment with biometrics authorisation.

2. Pay on Watch: Allows to link cards to Samsung watches to execute payment transactions.

- Apple Pay: A new function has been enabled that allows to link ABANCA cards to Apple devices to execute payment transactions.

- Google Pay: A new function has been enabled that allows to link ABANCA cards to Google devices to execute payment transactions.

7. Activities and outlook for 2020

The economic forecasts for 2020 point to an upturn of global economic activity, driven by the recovery of trade and industry. In particular, global GDP could grow by 3.3% this year, four tenths more than in 2019 according to the International Monetary Fund forecasts. Emerging economies will likely register as a whole a 4.4% annual growth rate, whereas expectations for developed economies point to a 1.6% average GDP growth.

The Spanish economy will extend into 2020 its current expansive cycle and will continue to grow above other major European economies, although at a slower pace (ca. 1.7%). Growth will remain intensive in job creation, leading to a further reduction of the unemployment rate. As for Galicia, it will extend its drive into 2020 growing at a rate in line with the figures for the whole of Spain.

The main risks for world growth are an eventual intensification of trade or geopolitical tensions that could lead to a sudden unbalance of global financial conditions.

Such an environment re-affirms the adequacy of the priorities orienting ABANCA activity, which have been set in the 2018-2020 Strategic Plan.

8. Events after the reporting date

- Dated 10 February 2020, ABANCA has submitted a binding offer for the purchase of 95% of shares in Banco Bic Portugês, S.A. (EuroBic). The purchase agreement is subject to a due diligence process and to approval by the relevant regulatory authorities.

- On 12 February 2020, S&P affirmed ABANCA long-term issuer rating at BB+ and changed the outlook to Stable. The short-term issuer rating was also affirmed at B.

- After having received the appropriate authorisations, during the first quarter the deed of merger of ABANCA Corporación Bancaria, S.A. and ABANCA Holding Financiero, S.A. was executed and subsequently filed with the Business Register.

- According to the planned timetable, in the first quarter of 2020 the IT integration and legal merger of ABANCA Corporación Bancaria, S.A. and Banco Caixa Geral, S.A. were completed.

ANNUAL CORPORATE GOVERNANCE REPORT

ISSUER IDENTIFICATION DATA

DATE OF END OF REFERENCE 2019 FINANCIAL YEAR

Company Tax No.
A70302039

Company Name:
ABANCA CORPORACIÓN BANCARIA, S.A.

Registered Office:
CANTÓN CLAUDINO PITA, 2
BETANZOS
A CORUÑA
15300
SPAIN

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER COMPANIES – DIFFERENT FROM SAVINGS BANKS OR STATE MARKETING COMPANIES OR PUBLIC ENTITIES- ISSUING SECURITIES THAT ARE NEGOTIATED IN OFFICIAL MARKETS

A PROPERTY STRUCTURE

A.1. Detail the most significant shareholders or participants of your entity at the closing date of the financial year:

Name or corporate name of the shareholder or participant	% On share capital
Juan Carlos Escotet Rodríguez	77,.76%[1]
ABANCA Corporación Bancaria, S.A.	8.77%

A.2. Indicate, as the case may be, family, commercial, contractual or corporate relations that exist between significant shareholders or interested parties, to the extent that they are known by the entity, unless they are of little relevance or arise from ordinary business or trade:

A.3. Indicate, as the case may be, the commercial, contractual or corporate relationships that exist between the significant shareholders or interested parties, and the entity, unless they are of little relevance or arise from ordinary business or trade:

A.4 Indicate whether there are any restrictions (statutory, legislative or of any kind) on the transferability of securities and/or any restrictions on the right to vote. In particular, the existence of any type of restrictions that may make it difficult to take control of the company through the acquisition of its shares in the market, as well as those prior authorization or communication systems which, regarding the acquisition or transfer of instruments are applicable by sector regulations, shall be notified:

YES [X] NO [ ]

[1] On 27 February, 2020,the merger through absorption between ABANCA Corporación Bancaria, S.A. (absorbing company) and Abanca Holding Financiero, S.A. (absorbed company) was finalised with its entry in the A Coruña Business Registry, with Mr. Escotet Rodriguez proceeding to hold 77.76 % of the capital directly, thereby making him to date the indirect controlling shareholder

Description of restrictions
In accordance with the stipulations of article 25.5 of the Bank's Bylaws, the Company shareholder shall find themselves in a situation of a conflict of interests and may not exercise the right to vote regarding his/her shares when the agreement to be adopted is intended to: a) release him/her from an obligation or grant him/her a right; b) provide him/her with any type of financial assistance, including the provision of guarantees in his/her favour; or c) dispense with the obligations derived from the duty of loyalty legally established for managers in accordance with the provisions of current legislation. Also, in accordance with the Law on the organization, supervision and solvency of credit institutions (LOSSEC), acquisitions of significant shares are subject to notification obligations and, where appropriate, non-opposition from the European Central Bank.

B GENERAL SHAREHOLDERS' MEETING OR EQUIVALENT BODY

B.1. List the quorum of the general meeting or equivalent body established in the bylaws. Describe how it differs from the minimum regime stipulated for in the Capital Company Act (LSC), or the regulations applying to it.

It does not differ with the minimum regime stipulated in the LSC. In accordance with the provisions of the Bank Bylaws, the General Meeting, whether ordinary or extraordinary, shall be validly constituted in the first or second call when the shareholders present or represented hold the percentage of voting capital established by law.

The validity of the constitution shall be determined with respect to each of the agreements to be adopted, the agenda being reduced, where appropriate, to the matters for which there is a quorum.

Notwithstanding the foregoing, the Board shall be validly constituted as a shareholders' meeting at which all shareholders are present or represented stipulated that all capital is present or represented and the attendees unanimously accept the holding of the Meeting and the agenda.

B.2. Explain the system for adopting corporate agreements. Describe how it differs from the system stipulated for in the LSC, or in the regulations that apply to it.

Attendees of the General Meeting will have one vote for each action they own or represent. The system for the adoption of corporate agreements does not differ with respect to those stipulated in the LSC, since the resolutions of the Board shall be adopted with the affirmative vote of the simple majority of the votes of the shareholders present or represented, the agreement therefore being deemed adopted when there are more votes in favour of than against the share capital, present or represented, as stated in article 201.1 of the aforementioned regulation. The cases in which the law stipulates a higher majority are an exception to this.

B.3. Briefly indicate the resolutions adopted at the general meetings or equivalent bodies held in the financial year to which this report refers and the percentage of votes with which the agreements have been adopted.

On 10 June 2019, the Ordinary General Meeting of Shareholders of ABANCA Corporación Bancaria, S.A. adopted, with the affirmative vote of 90.87619% of its present or represented share capital, the following resolutions:

1 Examination and approval, where appropriate, of the annual accounts (balance sheet, profit and loss account, statement of recognized income and expenses, total statement of changes in equity, cash flow statement and memory) of ABANCA Corporación Bancaria, S.A. and of its consolidated Group, corresponding to the financial year ending on 31 December 2018.

2 Approval, if applicable, of the Non-Financial Information Statement included in the Abanca's Corporate Responsibility Report.

3 Examination and approval, if applicable, of the proposal to apply the result of the 2018 financial year.

4 Approval, if applicable, of social management during the 2018 financial year.

5 Determination of the maximum number of members of the Board of Directors, within the limits established in the Bylaws and ratification of directors.

6 Remuneration System:

a) update of the maximum amount of the annual remuneration of the directors and of the Remuneration Policy of the Board of Directors.

b) With the affirmative vote of 90,77951% of the present or represented share capital, the following agreement was adopted: approval of the maximum ratio between the fixed and variable components of the total remuneration of executive directors and other employees belonging to categories whose professional activities significantly affect the risk profile.

c) With the affirmative vote of 90,87619% of the present or represented share capital, the following agreement was adopted: authorization to use a maximum number of Bank shares from treasury stock to meet the payments arising from the Regulation for the payment in shares of part of the variable remuneration for certain members of the group identified.

Similarly, with the affirmative vote of 90,87619% of the present or represented share capital, the following agreements were adopted:

7 Authorization for Abanca Corporación Bancaria, S.A. to proceed to the acquisition of its own shares, under the provisions of article 146 of the Capital Company Act.

8 Authorization for the Board of Directors to substitute, formalize, correct, interpret and execute the agreements that are adopted by the General Meeting, and to record such agreements as a public deed.

9 Merger by absorption between Abanca Holding Financiero, S.A. (absorbed company) and Abanca Corporación Bancaria, S.A. (absorbing company).

B.4. **Indicate whether there has been any item on the agenda at the general meetings or equivalent bodies held in the year that has not been approved by the shareholders.**

All decision points on the agenda have been approved.

B.5. **Indicate the address and mode of access to the entity's website for information on corporate governance.**

www.abancacorporacionbancaria.com

The Bank's corporate information is available on the website www.abancacorporacionbancaria.com. Specifically, in the sections "Information for shareholders and investors" and "Corporate Governance and remuneration policy".

B.6. **Indicate whether meetings of the different unions, if any, of holders of securities issued by the entity have been held, the purpose of the meetings held in the year to which this report refers and the main agreements adopted.**

There have been no meetings of unions of holders of securities issued by the entity.

C STRUCTURE OF ENTITY ADMINISTRATION

C.1. Board or administrative body

C.1.1. **Detail the maximum and minimum number of directors or members of the administrative body, as stipulated in the bylaws:**

Maximum number of directors/members of the body	15
Minimum number of directors/members of the body	5
Number of directors/members of the body set by the board or assembly	11

C.1.2. **Complete the following table on the members of the board or administrative body, and their different condition:**

[2]DIRECTORS/MEMBERS OF THE ADMINISTRATIVE BODY

Name or company name of the director/member of the administrative body	Representative	Last appointment date
JUAN CARLOS ESCOTET RODRÍGUEZ		23-06-2014

[2] It is hereby stated that on 28 October, 2019, the Board of Directors agreed, upon a favorable proposal from the Appointments Commission, to appoint Mr. Manuel Víctor López Figueroa as a new independent director of the company, having obtained the supervisory authorization, the appointment being fully effective as of the day of appointment.

Name or company name of the director/member of the administrative body	Representative	Last appointment date
FRANCISCO BOTAS RATERA		23-06-2014
PEDRO RAÚL LÓPEZ JÁCOME		23-06-2014
CARINA SZPILKA LÁZARO		23-06-2014
EDUARDO ERAÑA GUERRA		24-10-2016
JOSÉ RAMÓN RODRIGO ZARZA		23-06-2014
JOSÉ GARCÍA MONTALVO		23-06-2014
LETICIA IGLESIAS HERRAIZ		30-08-2018
ANA DA CUNHA BARROS		29-07-2019

The Board of Directors, at its meeting held on 29 July 2019, agreed to approve, on the proposal of the Appointments Committee, the co-opted appointment of Ana da Cunha Barrosas an independent director of ABANCA Corporación Bancaria, S.A.

We report below the status of the members of the Bank's Board of Directors:

- Executive director: Francisco Botas Ratera.
- Proprietary Director: Juan Carlos Escotet Rodríguez.
- Other external director: Pedro Raúl López Jácome.
- Independent external directors: Ms. Carina Szpilka Lázaro, José Ramón Rodrigo Zarza, José García Montalvo, Eduardo Eraña Guerra, Leticia Iglesias Herraiz and Ana da Cunha Barros.

During the 2019 financial year, the members of the Board of Directors have attended all the meetings of the Board. There was therefore no absence. The number of meetings held by the Board of Directors during the same financial year has been 14.

C.1.3. Identify, where applicable, the members of the board or administrative body that assume positions of directors, directors' representatives or managers in other entities that are part of the entity's group:

Name or company name of the director/member of the administrative body	Corporate name of the group entity	Post
JUAN CARLOS ESCOTET RODRIGUEZ	SOGEVINUS, SGPS, S.A.	LEGAL REPRESENTATIVE OF THE PRESIDENT ABANCA CORPORACION INDUSTRIAL Y EMPRESARIAL, S.L.
JUAN CARLOS ESCOTET RODRIGUEZ	ABANCA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A.	LEGAL REPRESENTATIVE OF THE PRESIDENT CORPORACION EMPRESARIAL DE TENENCIA DE ACTIVOS DE GALICIA, S.L.U.

JUAN CARLOS ESCOTET RODRIGUEZ	ABANCA HOLDING FINANCIERO, S.A.[3]	CHAIRPERSON
JUAN CARLOS ESCOTET RODRIGUEZ	ABANCA SERVICIOS FINANCIEROS, E.F.C., S.A.	LEGAL REPRESENTATIVE OF THE PRESIDENT CORPORACION EMPRESARIAL DE TENENCIA DE ACTIVOS DE GALICIA S.L.U.
JUAN CARLOS ESCOTET RODRIGUEZ	BANCO CAIXA GERAL, S.A.[4]	CHAIRPERSON
FRANCISCO BOTAS RATERA	ABANCA HOLDING FINANCIERO, S.A.	VICE PRESIDENT AND CEO
FRANCISCO BOTAS RATERA	ABANCA VIDA Y PENSIONES DE SEGUROS Y REASEGUROS, S.A.	LEGAL REPRESENTATIVE OF THE VICE PRESIDENT VIBARCO, S.L.U.
FRANCISCO BOTAS RATERA	ABANCA SERVICIOS FINANCIEROS, E.F.C., S.A.	LEGAL REPRESENTATIVE OF THE VICE PRESIDENT VIBARCO, S.L.U.
FRANCISCO BOTAS RATERA	BANCO CAIXA GERAL, S.A.	MANAGING DIRECTOR

C.1.4. Complete the following table with information regarding the number of female directors on the board of directors and their committees, as well as their progress in the last four years:

	Number of female directors							
	2019 Financial year		2018 Financial year		2017 Financial Year		2016 Financial year	
	Number	%	Number	%	Number	%	Number	%
Board of directors	3	33.33	2	25	1	14.28	1	11.11
Delegate Credit Committee	0	0	0	0	0	0	0	0
Appointments Committee	0	0	0	0	0	0	0	0
Remunerations Committee	1	33.33	1	33.33	1	33.33	1	25
Audit and Compliance Committee	2	40	2	40	1	25	1	25
Comprehensive Risk Committee	1	25	0	0	0	0	0	0

C.1.5. Indicate whether the company has diversity policies in relation to the company's administrative, management and supervisory bodies with regard to issues such as age, gender, disability, or professional training and experience. Small and medium-sized companies, in accordance with the definition

[3] Information as of 31 December, 2019. Abanca Holding Financiero, S.A. has been dissolved on 27 February 2020 (see footnote on the question A1).

[4] At present, Banco Caixa Geral, S.A. has ceased to exist as a result of the merger by absorption with ABANCA Corporación Bancaria, S.A. (absorbing society), with effect from 15 March 2020, date on which the merger was entered in the A Coruña Business Registry.

contained in the Accounts Auditing Law, will have to report, as a minimum, on the policy they have established in relation to gender diversity.

YES	X	NO	

If yes, please describe this diversity policy, its objectives, the measures and how it has been applied, and its results for the year. The specific measures adopted by the administrative body and the appointments and remuneration committee to achieve a balanced and diverse presence of directors or managers must also be indicated.

If the company does not apply a diversity policy, explain the reasons why.

The purpose of the Policy for the Selection and Continuous Evaluation of the Conditions of Suitability and Qualification of Directors of ABANCA Corporación Bancaria, S.A. (Suitability Policy), is to establish a set of criteria and guidelines for action, which must ensure that the models and schemes for appointments, ratification and re-election of the directors of ABANCA Corporación Bancaria, S.A. are compatible with its business strategy, objectives, values and long-term interests and with adequate and effective risk management, avoiding conflicts of interest.

Similarly, it aims to implement the appropriate procedure and designate the competent unit in order to undertake the analysis and continuous evaluation of the maintenance of the conditions of suitability and correct qualification of the directors.

The Suitability Policy therefore establishes that the appointment of directors shall be guided by the principle of professionalism in management, in accordance with which all members of the Board of Directors shall be persons of recognized commercial and professional repute and with adequate knowledge and experience, and in a position to exercise good governance of the entity, and not involved in anything whatsoever that would give grounds for incompatibility or disqualification.

Finally, the Policy states that the general composition of the Board of Directors as a whole must gather sufficient knowledge, skills and experience in the governance of credit institutions to adequately understand the Bank's activities, including its main risks, and ensure the effective capacity of the Board of Directors to make decisions independently and autonomously for the benefit of the Bank. It must ensure that the selection procedures for its members favour diversity of experience and knowledge, facilitate the selection of female directors and, in general, do not suffer from implicit biases that may imply some discrimination. This policy is fully aligned with the European Central Bank's Directors' Suitability Assessment Guide, and with guideline EBA/GL/2017/12 on evaluating the suitability of board members and other key personnel.

In the 2019 financial year, the application of the above principles was revealed with the appointment of Ana da Cunha Barrosas an independent director of the

Company. This appointment meant reaching and exceeding the objective of 30% of representation of the least represented sex within the Board of Directors, thus complying with recommendation 14 of the Code of Good Governance of listed companies and the provisions of the Suitability Policy of ABANCA regarding compliance with this objective. Similarly, it meant increasing the number of directors belonging to the independent category.

This measure has been completed in accordance with the results of the evaluation of the Board of Directors and its Committees, whose action plan was approved by it at its meeting of 10 June 2019 following a favourable proposal from the Appointments Committee, held previously on that same date.

C.1.6. Complete the following table regarding the aggregate remuneration of directors or members of the administrative body, accrued during the financial year:

	Thousands of euros	
Remuneration item	Individual	Group
Fixed remuneration	1,300	0
Variable remuneration	1,288	0
Per diems	1,936	0
Other remuneration	65	0
Total:	**4,589**	**0**

C.1.7. Identify the members of senior management who are not also directors or members of the executive management body, and indicate the total remuneration they accrued during the financial year:

Name or company name	Post
JOSE EDUARDO ÁLVAREZ-NAVEIRO SÁNCHEZ	M.G. CORPORATE GOVERNANCE AND LEGAL ISSUES
LUIS BERAZA DE DIEGO	M.D. BUSINESS SPAIN
MARÍA CAMINO AGRA	M.D. HUMAN CAPITAL
ALFONSO CARUANA CAMARA	M.G. INTERNATIONAL BUSINESS
MIGUEL ÁNGEL ESCOTET ALVAREZ	M.G. CORPORATE SOCIAL RESPONSIBILITY AND COMMUNICATION
ALBERTO DE FRANCISCO GUISASOLA	M.G. FINANCE
JULIÁN JOSÉ SERRAPIO VIGO	GENERAL AUDITOR
PABLO TRIÑANES LAGO	M.G. CORPORATE AND RISK MANAGEMENT

Name or company name	Post
JOSE MANUEL VALIÑO BLANCO	M.G. IT, Information, Processes and Operations
JUAN LUIS VARGAS-ZÚÑIGA MENDOZA	M.G. Capital Markets, Management and Distribution:
JOSE LUIS VÁZQUEZ FERNÁNDEZ	M.G. CREDIT
PEDRO VEIGA FERNÁNDEZ	M.G. STRATEGIC PLANNING AND PMO

For the purposes of the total remuneration accrued by senior management during the financial year, account has been taken of Juan María Hernández Andrés, deceased before the end of the financial year.

Total senior management remuneration (thousands of euros)	4,891

C.1.8. Indicate whether the bylaws or board regulations establish a limited mandate for the directors or members of the body:

YES [X] NO [ ]

Maximum number of years in office	4

C.1.9. Indicate whether the individual and consolidated annual accounts presented for approval to the board or administrative body have been previously certified:

YES [ ] NO [X]

Identify, where appropriate, the person(s) who have or have certified the entity's individual and consolidated annual accounts, for formulation by the board or administrative body:

C.1.10. Explain, if any, the mechanisms established by the board or administrative body to prevent the individual and consolidated accounts prepared by it from being presented at the General Meeting or equivalent body with qualifications in the audit report.

In accordance with article 31.1 of the Regulations of the Board of Directors, the relations of the Board with the external auditors of the Company shall be channelled through the Audit and Compliance Committee. Moreover, article 12 e. of the Regulations of the Audit and Compliance Committee stipulates that, for the proper functioning of its operations, the Audit Committee, through its Chairperson, and notwithstanding the involvement of other members of the Committee, shall establish an effective communication channel and periodically with the main auditor responsible for the audit of accounts as defined by the LAC (where appropriate, the auditor or auditors of accounts designated by the corresponding audit firm as the main persons responsible for the audit work).

For these purposes, the Bank's Audit and Compliance Committee is responsible for establishing the appropriate relationships with the external auditors in order to receive information on any matter that may jeopardize their independence and any other issue related to the process of developing the accounts audit.

Similarly, it is the responsibility of the Audit and Compliance Committee, in relation to the external auditor, to serve as a communication channel between the Board of Directors and the external auditors, to evaluate the results of each audit and the management team's responses to the external auditor's recommendations and mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable in the preparation of the financial statements.

The Audit and Compliance Committee must supervise compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted clearly and precisely.

Moreover, article 31.2 of the Board Regulations establishes that the Board of Directors shall endeavour to formulate the accounts definitively in such a way that there is no room for qualifications by the auditor. However, when the Board believes that it must maintain its criteria, it shall publicly explain the content and scope of the discrepancy.

C.1.11. Does the secretary of the board or the administrative body have the status of director?

YES		NO	X

If the secretary does not have the status of director, complete the following table:

Name or company name of the secretary	Representative
DJOSÉ EDUARDO ÁLVAREZ-NAVEIRO SÁNCHEZ	
Ms. MARÍA CONSOLACIÓN BORRÁS RETAMERO (Deputy Secretary)	

C.1.12. Indicate, if any, the mechanisms established to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

It is the role of the Bank's Audit and Compliance Committee to propose to the Board of Directors the appointment of account auditors for submission to the General Meeting. Similarly, it establishes relations with them and watches over their independence, and must issue annually, prior to the issuance of the accounts audit report, and in accordance with article 5 2.3 of the Regulations of the Audit and Compliance Committee, a report express an opinion on the independence of the auditors. This report must rule on the provision of additional services by the auditor.

In this sense, the written confirmation of their independence vis-à-vis the entity or companies directly or indirectly linked to it must be received annually from the auditors, as well as information concerning the additional services of any kind stipulated to these companies by the aforementioned auditors, or by the people or entities linked to them.

In addition, as good practice and in application of the Technical Guide 3/2017 of the CNMV [Spanish

Securities & Exchange committee] on auditing committees of public interest entities, the account auditor is asked for explanations about the internal quality control system that it has established in matters of independence, as well as information on the internal rotation practices of the audit partners and their staff. The auditor shall comply with this request and provide the committee with the required information.

The report on independence of the external auditor submitted to the General Meeting is therefore of importance here. In the report, the Audit and Compliance Committee decides on different aspects related to its independence, concluding that the information obtained through the available communication channels has not identified aspects that question compliance with the regulations in force in Spain on the activity of auditing accounts in the area of auditor independence and, in particular, confirms that no aspects of this nature have been identified that are related to the provision of additional services of any kind.

Similarly, in compliance with the International Framework for the Professional Practice of Internal Auditing (2050 standard), the Director of Internal Audit meets quarterly with the external auditor in order to coordinate underwriting business in the Bank and minimize duplication of efforts.

In this regard, if the Director of Internal Audit, either through quarterly meetings with the external auditor, or through any other source, were to become aware of the existence of conflicts of interest or independence problems in the performance of services stipulated by the external auditor, he/she would inform the Bank's Governing Bodies.

Furthermore, ABANCA has complied during the 2019 financial year with the limitation established in article 4.2 of the RUE (from its application in 2020), since the fees received by the accounts auditor for services other than auditing have not exceeded 70% of the average of the fees paid in the last three consecutive financial years by the statutory audit of the Entity.

This practice has been carried out in accordance with the recommendation 65 section c) of the Technical Guide 3/2017 of the CNMV on audit committees: "*establish a guideline limit on the fees to be received by the auditor for non-audit services, taking into account the provisions of article 4.2 of the RUE and articles 24 and 41.2 of the LAC*".

Regarding the selection of investment banks, the criteria are restrictive in order to avoid that they may have overlapping interests in more operations in the same markets and at the same time.

On the other hand, ABANCA Corporación Bancaria, S.A. has also contracted the services of four rating agencies, including three of the main international agencies, periodically submitting to its analysis and using its recommendations as an effective method for improvement.

C.2. Board or Administrative Body Committees.

C.2.1. List the committees of the board or administrative body:

Name of body	No of members
MANAGING DIRECTOR	1
DELEGATE CREDIT COMMITTEE	3
AUDIT AND COMPLIANCE COMMITTEE	5
APPOINTMENTS COMMITTEE	3
REMUNERATION COMMITTEE	3
COMPREHENSIVE RISK COMMITTEE	4

C.2.2. List all the committees of the board or administrative body and its members and the proportion of executive, proprietary, independent and other external directors that comprise them (companies that do not have the legal form of a capital company shall not fill in the category of director in the respective table and in the text section shall explain the category of each director in accordance with their legal regime and the way in which they meet the composition conditions of the audit committee and the appointments and remuneration committee):

The position of secretary in all the Board Committees indicated in this section has been held by the non-director secretary of the Board of Directors

DELEGATE CREDIT COMMITTEE

Name	Post	Category
FRANCISCO BOTAS RATERA	CHAIRPERSON	EXECUTIVE DIRECTOR
PEDRO RAÚL LÓPEZ JÁCOME	MEMBER	OTHER EXTERNALS
JOSÉ RAMÓN RODRIGO ZARZA	MEMBER	INDEPENDENT DIRECTOR

% of executive directors	33.33 %
% of proprietary directors	0%
% of independent directors	33.33%
% of other externals	33.33%
Number of meetings	18

Explain the functions assigned to this committee, and describe the procedures and rules for its organization and operation. For each of these functions, indicate its most important actions during the financial year and how it has exercised in practice each of the functions assigned to it, whether by law, bylaws or other corporate agreements.

According to article 11 of the Board Regulations, the Delegate Credit Committee shall comprise a minimum of three (3) directors.

The Delegate Credit Committee shall be executive and, therefore, may adopt the respective decisions within the scope of the powers delegated by the Board.

The Delegate Credit Commission shall appoint a chairperson from among its members. It shall also have a secretary and, where appropriate, a deputy secretary, both of whom may be persons other than the secretary and deputy secretary of the Board of Directors, respectively.

The delegation of powers to the Delegate Credit Committee and the appointment agreements of its members shall require the affirmative vote of at least two thirds of the Board members.

The Delegate Credit Committee shall have the powers specifically stipulated in the delegation agreement, which shall include, at least, the powers that correspond to the Board of Directors in relation to the granting and monitoring of financing operations whatever their nature, including those related to the improvement, recognition, modification, extension, anticipation of expiration, resolution, termination, renewal and, in general, all that concern the acts, contracts or operations of the bank's business or trade in its financing operations.

The Committee shall meet, on a regular basis, on a weekly basis and, in addition, as many times as convened by its chairperson, at his own initiative or at the request of at least one third of its members.

The Committee shall be validly constituted with the assistance, present or represented, of more than half of its members and shall adopt its agreements by a majority of the attendees, present or represented, its chairperson having the casting vote.

The members of the Committee may delegate their representation to one another, taking into account that non-executive directors may only do so with another non-executive director. The agreements of the Committee shall be recorded in a minutes book, which shall be signed, for each of them, by the chairperson and the secretary. The relevant documentation for each meeting shall be stipulated to the members of the committee 3 business days before the meeting is held, unless urgent reasons prevent compliance with that deadline, in which case the information shall be stipulated to the directors as soon as possible.

Meetings may be held in several rooms simultaneously, provided that the interactivity and intercommunication between them is ensured by audio-visual or telephone means. In this case, the connection system and, if applicable, the places where the technical means necessary to attend and participate in the meeting are available, shall be recorded. The agreements shall be regarded as adopted in the place where the majority of the Committee members are located and, in case of equality, in the registered office.

The Committee, through its chairperson, shall inform the Board of the matters and decisions taken in its sessions, making a copy of the minutes of the sessions of this Committee available to all directors.

Due to the high number of meetings held and the high volume of proposed operations and other matters dealt with by the Committee, its main actions are set out below:

- It studied and sanctioned the active operations that, under the Credit Admission Standard, fall within his competence, and provided information regarding those that should have been sanctioned by the Board.
- It agreed to pre-classify the main business groups, which entails speeding up the admission process for pre-selected customers and is constantly informed of their development.
- It approved the adhesion to various Agreements with Official Organizations.
- It approved the classification for operations in interbank market for a number of national and foreign entities.
- It received periodic information from the Credit Risk Profile Monitoring Committee, which support the Committee in strengthening the follow-up action and the level of credit risk consolidation, in accordance with the best practices in the field of governance, anticipation and management of situations involved in the performing portfolio.
- It periodically monitored the sanitation of individually significant borrowers both for the purpose of re-assessing their impairment loss and to authorize a grace period for their doubtful and substandard loans.
- It permanently monitored the state and the positions with the Bank of its reputed capital.
- It analysed and sanctioned, where appropriate, all proposals submitted in favour of individuals and legal entities classified as “Related Parties” in accordance with the Corporate Policy on Operations with Related Parties approved by the Board of Directors on 14 December 2018.

AUDIT AND COMPLIANCE COMMITTEE

Name or company name	Post	Category
LETICIA IGLESIAS HERRAIZ	CHAIRPERSON	INDEPENDENT DIRECTOR

JOSÉ GARCÍA MONTALVO	MEMBER	INDEPENDENT DIRECTOR
CARINA SZPILKA LÁZARO	MEMBER	INDEPENDENT DIRECTOR
PEDRO RAÚL LÓPEZ JÁCOME	MEMBER	OTHER EXTERNALS
JOSÉ RAMÓN RODRIGO ZARZA	MEMBER	INDEPENDENT DIRECTOR

% of proprietary directors	0%
% of independent directors	80%
% of other externals	20%
Number of meetings	11

Explain the functions, including, where appropriate, those additional to those stipulated by law, which are attributed to this committee, and describe the procedures and rules for its organization and operation. For each of these functions, indicate their most important actions during the financial year and how each of the functions assigned have been exercised in practise, whether by law, bylaws or other corporate agreements.

The chairperson of the Committee must be replaced every four years, and may be re-elected after the expiration of one year from his/her termination. The Committee shall also have a secretary and, where appropriate, a deputy secretary, both of whom may be persons other than the secretary and deputy secretary of the Board of Directors, respectively. The deputy secretary shall replace the secretary in cases of absence, disability or vacancy.

The committee shall meet, ordinarily, on a monthly basis and, in addition, as many times as called by its chairperson, either on its own initiative, at the request of the chairperson of the Board or at the request of at least one third of its members.

The Audit and Compliance Committee shall be validly constituted with the attendance, present or represented, of the majority of its members and shall adopt its resolutions by majority vote of the attending members, present or represented, with the chairperson having a casting vote in the event of a tie.

For the adoption of agreements relating to transactions related to shareholders, individually or jointly with others, of a controlling interest, or with their related persons, excluding legal entities belonging to the ABANCA Corporación Bancaria group, only those directors with independent status may participate in the deliberation and vote, deducting from the calculation of the majority of votes those corresponding to the directors who are not considered independent. The members of the Committee may delegate their representation to another of them. The agreements of the Committee shall be recorded in a minutes book, which shall be signed, for each of them, by the chairperson and the secretary. The relevant documentation for each meeting (draft agenda, presentations, minutes of previous meetings, etc.) shall be stipulated to the members of the committee 3 business days prior to the meeting, unless urgent reasons prevent this deadline being met, in which case the information shall be stipulated to the directors as soon as possible.

Meetings may be held in several rooms simultaneously, provided that the interactivity and intercommunication between them is ensured by audio-visual or telephone means. In this case, the connection system and, if applicable, the places where the technical means necessary to attend and participate in the meeting are available, shall be recorded. The agreements shall be regarded as adopted in the place where the majority of the Committee members are located and, in case of equality, in the registered office.

Notwithstanding other tasks assigned by the Board, the Audit and Compliance Committee shall have at least the following functions:

1. Inform the Annual General meeting about the issues raised in relation to the matters that are the responsibility of the Committee and, in particular, about the result of the audit explaining how it has contributed to the integrity of the financial information and the function that the Committee has played in that process.

2. In relation to the external auditor:

2.1 Submit to the Board of Directors the proposals for the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process, in accordance with the provisions of the articles 16, sections 2, 3 and 5, and 17.5 of Regulation (EU) no. 537/2014, of 16 April, for its submission to the General Meeting, as well as the conditions of his/her hiring and regularly collect from him/her information about the audit plan and its execution, in addition to maintaining his/her independence in the exercise of his/her functions.

2.2 Establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to their independence, for consideration by the Committee, and any others related to the process of developing the audit of accounts, and, where appropriate, the authorization of services other than those prohibited, in the terms contemplated in articles 5, section 4, and 6.2.b) of Regulation (EU) no. 537/2014, of 16 April, and in the stipulations of section 3, chapter IV of sub-section I of Law 22/2015, of 20 July, on Accounts Auditing, as concerns the independence regime, as well as those other communications stipulated in account auditing legislation and audit regulations. The external auditors must send annually the statement of their independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind stipulated and the respective fees received from these entities by the external auditor or by the persons or entities related to it, in accordance with the provisions of the regulatory regulations for the activity of auditing accounts.

The aforementioned authorizations, in case of duly justified urgency, may be granted by the chairperson of the Committee, and must be ratified by the latter in its next session.

2.3 Issue annually, prior to the issuance of the account audit report, a report in which an opinion shall be expressed as to whether the independence of the account auditors or audit firms is compromised. This report must contain the reasoned assessment of the provision of each and every one of the additional services mentioned above, individually considered and as a whole, other than the legal audit and in relation to the independence regime or the regulations governing the activity of auditing accounts

2.4 Serve as a communication channel between the Board of Directors and the external auditors, to evaluate the results of each audit and the management team's responses to the external auditor's recommendations and mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable in the preparation of the financial statements. The committee shall also verify that senior management takes into account the recommendations of the external auditor;

2.5 Supervise compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted in a clear and precise manner;

2.6 Ensure that the external auditor holds an annual meeting with the full Board of Directors to inform it about the work undertaken and the development of the accounting and risk situation of the Company.

3. Concerning internal information and control systems and the internal audit function:

3.1 Check the adequacy and integrity of internal control systems and review the appointment and replacement of those responsible;

3.2 Know and supervise the process of preparation and presentation and the integrity of the mandatory financial information related to the Company and, where appropriate, to its Group, reviewing compliance with regulatory requirements, the proper delimitation of the scope of consolidation and the correct application accounting criteria, presenting, where appropriate, recommendations or proposals to the Board, aimed at safeguarding its integrity;

3.3 Supervise the effectiveness of the Company's internal monitoring, internal audit, and risk management systems, so that the main risks are adequately identified, managed and disclosed, and discuss with the external auditor the significant weaknesses of the internal monitoring system detected, where appropriate, in the development of the audit, all without infringing upon their independence. To this end, and where appropriate, recommendations or proposals may be submitted to the Board and the respective deadline for their follow-up.

3.4 Supervise and ensure the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the Auditor General; propose the Internal Audit Statute, propose the direction and annual work plan of the internal audit function, ensuring that its activity is focused mainly on the Company's relevant risks; propose the budget and resource plan of the internal audit function, after evaluating the scope and resources of the function; receive periodic information on its activities and on incidents that occur in its development; and verify that senior management takes into account the conclusions and recommendations of their reports. On the other hand, the Auditor General shall have full access to the Audit and Compliance Committee, through its chairperson;

3.5 Establish and supervise a mechanism that allows employees to communicate, in a confidential manner, potential irregularities, especially financial and accounting, that are noticed within the company; and

3.6 Review the Company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as report proposals for modification of accounting principles and criteria suggested by management.

4. Examine compliance with the Internal Code of Conduct in the securities markets, with the Regulations of the Board of Directors and, in general, with the Company's rules of governance and make the necessary proposals for its improvement. In particular, it is the responsibility of the Audit and Compliance Committee to receive information and, where appropriate, issue a report on disciplinary measures to members of the Company's senior management.

5. Supervise the operation and compliance of the Internal Control Manual for the Prevention of Criminal Risks approved by the Board in accordance with section 4.4 Article 4 of the Regulations of the Board of Directors.

In order to carry out this task, the Committee shall have, among others, the power to collect any information it deems appropriate and to summon any manager or employee of the Group, including, in particular, those responsible for the compliance function and the various Committees with powers in this area to assess their performance, as well as the power to initiate and direct the internal investigations that it deems necessary on facts related to the possible breach of the Internal Control Manual for the Prevention of Criminal Risks.

Similarly, the Committee shall periodically evaluate the operation of the Internal Control Manual for the Prevention of Criminal Risks and its effectiveness in the prevention or mitigation of the committing of crimes, relying on it in conjunction with external advice when it deems appropriate, and shall propose to the Board of Directors any changes to the Internal Control Manual for the Prevention of Criminal Risks and, in general, to the compliance programme that it deems appropriate in view of such an assessment.

6. In addition, the Audit and Compliance Committee shall inform the Board, in advance, of all matters stipulated in the Law, the Bylaws and the Regulations of the Board and in particular regarding:

1. The financial information that the Company must publish periodically.
2. The creation or acquisition of shares in special purpose entities or those domiciled in countries or territories that are considered tax havens.
3. Transactions with related parties, in the terms established in the Regulations of the Board of Directors.
   For these purposes, the Committee must collect and analyze all the necessary information and documentation, valuing the operation from the point of view of equal treatment and market conditions. To do this, in accordance with section 9, it may request expert reports when deems appropriate to pronounce, for example, on the effects on the social interest of the proposed transaction or whether it would be carried out in market terms.
4. The modifications of these Regulations and those of the Regulations of the Board of Directors.

7. Formulate for the Board of Directors as many proposals as it deems appropriate on issues included in its field of competence.

8. Any others stipulated in the Regulations of the Board of Directors or in the applicable regulations.

9. For the best performance of its functions, the Audit and Compliance Committee may seek the advice of external professionals in matters within its competence.

In accordance with the ABANCA Corporate Governance Excellence Plan, and according to the 3/2017 Technical Guide of the CNMV on audit committees of public interest entities, on 15 December 2017, the Board of Directors approved the Regulations of the Audit and Compliance Committee.

During the 2019 financial year, its main actions have been, among others, to:

- Submit the 2018 Audit and Compliance Committee Activities Report to the Board of Directors.
- Advocate to the Board the approval of the modifications made to the MiFID regulatory block arising from the annual review.
- Receive information on the recommendations and requirements by Internal Audit, as well as the report of its activity.
- Advocate to the Board the formulation of the liquidity accounting statement for the payment of dividends on account concerning the 2018 financial year.
- Receive the report of the Ethics Committee on the operation of the Whistleblower Channel.
- Favourably inform the Board of 2019 treasury stock objectives.
- Authorize the hiring of KPMG for work other than auditing the company's accounts.
- Agree to submit to the Board the hiring of the external advisors and the expert for the issuance of fairness opinion, within the framework of the joint merger project between ABANCA Corporación Bancaria (absorbing company) and Abanca Holding Financiero, S.A. (absorbed company).
- Submit favourably to the Board the assessment of the financial strategy and the financial risks control and management policy.
- Propose to the Board the updating of the “Document of practical application of the criteria for determining the group identified”.
- Issue a favourable opinion to the Board on the appointment of the head of Regulatory Compliance and Prevention of Money Laundering at the Miami Branch.

- Submit a favourable proposal to the Board for the statement and report of the external auditor regarding its independence, as well as the committee's own report on it and the audit services stipulated to the Bank or related companies.
- Advocate the submission of the Annual Corporate Governance Report to the Board.
- Report favourably to the Board on the annual accounts, the management report and the 2018 CSR Report.
- Receive the annual activity report of the Money Laundering Prevention Committee.
- Agree to submit a favourable proposal to the Board on the approval of the Report on the evaluation of compliance with the RIC for the first half of 2018.
- Submit to the Board a proposal to update the Criminal Risk Prevention Policy of ABANCA and its Manual, as in Annex I: Risk Matrix - Controls and Risk Map of Grupo ABANCA.
- Submit a proposal to the Board for the approval of the Customer Service Report for the 2018 financial year.
- Receive a report on the Internal Audit function activity, as well as the status of recommendations and audit requirements.
- Receive the annual report on transactions with related parties.
- Submit a favourable report to the Board on the review of suitability and honourability of all the members of the group identified.
- Submit to the Board a proposal for payment of the 2018 variable remuneration, as well as the 2019 SRV.
- Receive information on the significant facts discussed in the Ethics Committee
- Submit to the Board the External Expert Report on certain measures to prevent money laundering and terrorist financing. And propose to transfer the information to the administrative bodies of the rest of Grupo ABANCA companies incorporated in the perimeter of PBC/FT.
- Report favourably on the annual report for the 2018 financial year on Regulatory Compliance for submission to the Board of Directors.
- Agree to report favourably to the Capital Planning Process Board (ICAAP) and the 2018 Liquidity Planning Process (ILAAP).
- Receive information from the authorized treasury stock operations report.
- Submit a favourable proposal to the Board for the formulation of the Consolidated Summary Interim Financial Statements to 31 March 2019 and for the distribution of the first dividend on account for the 2019 financial year for the amount of € 62,484,000.
- Report favourably to the Board and submit to the General Shareholders Meeting the proposal for "Approval of the Joint Proposed Merger (via takeover) between Abanca Holding Financiero, S.A. and ABANCA Corporación Bancaria, S.A."
- Receive the Compliance Committee report from the Miami branch during 1T 2019.
- Agree to submit the "Report on prevention of money laundering and terrorist financing of ABANCA Corporación Bancaria, S.A. Branch in Portugal"
- Receive the annual compliance report regarding activity in Switzerland.
- Agree with the Comprehensive Risk Committee and the Remuneration Committee to favourably propose to the Board the approval of the issuance of Information of Prudential Relevance (IPR) of Abanca Holding Financiero, S.A. with information up to 31 December 2018.
- Submit a favourable proposal to the Board for the modification of the Internal Code of Conduct in the area of the Stock Market and the modification of the General Rules of Internal Procedures for the Execution and Monitoring of the RIC.
- Favourably inform the Board of the modification of the Regulation for ABANCA's Customer Protection.

- Receive information on the implementation of the Property Credit Law.
- Take account of the Customer Service Claims Report referring to the first semester of 2019.
- Advocate to the Board the approval of the modification of the 2019 Annual Operating Plan.
- Inform the Board favourably of the update of the Internal Audit Procedures Manual.
- Submit a favourable proposal to the Board for the formulation of the condensed interim consolidated financial statements up to 30 June 2019.
- Report favourably to the Board on the execution of the distribution of the dividend against the item of free distribution reserves of ABANCA agreed by the Ordinary General Shareholders Meeting of 10 June, under item Nine of the Agenda.
- Propose to the Board the distribution of a second interim dividend for the 2019 financial year for the amount of € 37,560,400.
- Agree to submit to the Board the hiring of KPMG Asesores, S.L. for the issuance of a Comfort Letter relating to the issuance of fixed-income securities by ABANCA.
- Inform the Board of the Self-Assessment of Risk in the Prevention of Money Laundering and Terrorism Financing.
- Submit a favourable proposal to the Board on the modification of the Product Governance Policy.
- Advocate to the Board the approval of the modification of the 2019 Annual Operating Plan.
- Advocate to the Board the updating of the Outsourcing Policy.
- Submit a favourable proposal to the Board in order to process the authorization for use by ASF in Portugal of ABANCA's "community passport" with a view to providing the services it has been undertaking through its Portuguese branch.
- Raise favourably to the Board the formulation of the Individual Balance to 31 August 2019 of ABANCA.
- Receive the valuation report issued by the independent expert Financial Managers, about the merger project between ABANCA and Banco Caixa Geral, S.A.
- Report favourably to the Board on the agreements of the joint merger project between ABANCA Corporación Bancaria, S.A. (absorbing company) and Banco Caixa Geral, S.A. (absorbed company).
- Submit a favourable proposal to the Board in order to approve the Internal Audit Follow-up Committee Manual and the update of the FAI Government's Manual.
- Propose to the Board the formulation of the condensed interim consolidated financial statements up to 31 September 2019 and the proposal of a third interim dividend for the 2019 financial year for the amount of € 60,706,800.
- Propose the hiring of KPMG Asesores, S.L. for the independent review of the 2019 RSC and 2019 EINF Annual Reports of ABANCA.
- Inform favourably the Board of the modification of the Annual Operating Plan 2019.
- Submit a favourable proposal to the Board for the approval of the new Internal Audit Statute.
- Inform the Board of the 2020 Risk Assessment.
- Inform the Board favourably of the update of the Internal Audit Procedures Manual.
- Submit proposal for modification to the Board of the NG of the Regulation of the Whistleblower Channel.

Identify the members of the audit committee who have been appointed, taking into account their knowledge and experience in accounting, auditing or both, and report on the date of appointment of the Chairperson of this committee in office.

Name of experienced director	LETICIA IGLESIAS HERRAIZ JOSÉ GARCÍA MONTALVO PEDRO RAÚL LÓPEZ JÁCOME
Number of years of the chairperson in office	1

APPOINTMENTS COMMITTEE

Name or company name	Post	Category
EDUARDO ERAÑA GUERRA	CHAIRPERSON	INDEPENDENT DIRECTOR
PEDRO RAÚL LÓPEZ JÁCOME	MEMBER	OTHER EXTERNALS
JOSÉ RAMÓN RODRIGO ZARZA	MEMBER	INDEPENDENT DIRECTOR

% of proprietary directors	0%
% of independent directors	66.66%
% of other externals	33.33%
Number of meetings	10

Explain the functions, including, where appropriate, those additional to those stipulated by law, which are attributed to this committee, and describe the procedures and rules for its organization and operation. For each of these functions, indicate their most important actions during the financial year and how each of the functions assigned have been exercised in practise, whether by law, bylaws or other corporate agreements.

According to article 11 of the Board Regulations, the Appointments Committee shall comprise a minimum of three (3) directors. all of them non-executive. At least one third of these members (or, if superior, two of its members) and, in any case, the chairperson, must be independent directors.

The members of the Appointments Committee shall be appointed by the Board of Directors, taking into account the knowledge, skills and experience of the directors and the tasks of the Committee. The Committee shall have a secretary and, optionally, a deputy secretary, who may be persons other than the secretary and deputy secretary of the Board of Directors. The deputy secretary shall replace the secretary in cases of absence, disability or vacancy.

The committee shall meet, ordinarily, on a monthly basis and, in addition, as many times as called by its chairperson, either on its own initiative, at the request of the chairperson of the Board or at the request of at least one third of its members. Similarly, it will also meet every time the Board of Directors or its chairperson requests the issuance of a report or the adoption of proposals.

The Committee shall be validly constituted with the assistance, present or represented, of more than half of its members and shall adopt its agreements by a majority of the attendees, present or represented, its chairperson having the casting vote.

The members of the Committee may delegate their representation to another of them. The agreements of the Committee shall be recorded in a minutes book, which shall be signed, for each of them, by the chairperson and the secretary. The relevant documentation for each meeting (draft agenda, presentations, minutes of previous meetings, etc.) shall be stipulated to the members of the committee 3 business days prior to the meeting, unless urgent reasons prevent this deadline being met, in which case the information shall be stipulated to the directors as soon as possible.

Meetings may be held in several rooms simultaneously, provided that the interactivity and intercommunication between them is ensured by audio-visual or telephone means. In this case, the connection system and, if applicable, the places where the technical means necessary to attend and participate in the meeting are available, shall be recorded. The agreements shall be regarded as adopted in the place where the majority of the Committee members are located and, in case of equality, in the registered office.

Notwithstanding other tasks assigned by the Board, the Appointments Committee shall have, at least, the following functions:

1. Evaluate the balance of knowledge, capacity, diversity and experience required on the Board of Directors and prepare a description of the functions and skills required for a specific appointment, valuing the time and dedication required for them to carry out their duties effectively;

2. Establish a representation objective for the least represented sex on the Board of Directors and prepare guidelines on how to achieve the aforementioned objective;

3. Identify and recommend, with a view to their approval by the Board of Directors or by the General Meeting, candidates to fill the vacant positions of the Board of Directors and, in particular:

3.1. Submit to the Board of Directors the proposals for the appointment of independent directors for appointment by co-option or, where appropriate, for submission to the decision of the General Shareholders' Meeting, as well as proposals for the re-election or removal of those directors by the General Meeting; and

3.2. Inform the proposals for the appointment of the remaining directors for their appointment by co-option or, where appropriate, for their submission to the decision of the General Meeting of shareholders, as well as the proposals for their re-election or removal by the General Meeting.

4. Periodically review the policy of the Board of Directors regarding the selection and appointment of members of senior management and make recommendations to it, as well as report on proposals for appointment and removal of senior management and the basic conditions of their contracts;

5. Apply and supervise the succession plan for directors approved by the Board of Directors;

6. Inform the Board prior to the members who must form part of each of the committees;

7. Annually verify the character of the Company's directors and inform the Board in this regard, for its consideration in the preparation of the Annual Corporate Governance Report;

8. Periodically evaluate, and at least once a year, the structure, size, composition and performance of the Board of Directors, making recommendations to it concerning possible changes;

9. Periodically evaluate, and at least once a year, the suitability of the various members of the Board of Directors and of the Board as a whole, and report to the Board of Directors accordingly;

10. Define policies and guidelines for the management of the Company's Human Capital; and

11. Inform the proposed appointment of the Honorary Chairperson.

12. Any others stipulated in the Regulations of the Board of Directors or in the applicable regulations.

In the performance of its tasks, the Appointments Committee shall take into account, as far as possible and on an ongoing basis, the need to ensure that the decision-making of the Board of Directors is not dominated by an individual or a small group of individuals where the interests of the Company as a whole are harmed.

The committee may use the resources it deems appropriate for the performance of its functions, including external advice.

Following the recommendations of the Technical Guide of 20 February 2019, on the CNMV appointments and remuneration committees, the Board of Directors approved the Appointments Commission Regulation at its meeting on 13 December 2019

During the 2019 financial year, its main actions have been, among others, to:

- Submit the Appointment Committee Activities Report to the Board of Directors 2018.
- Report on the annual revaluation process of the suitability conditions of the directors of the Bank, ASF and Abanca Seguros, as well as their rating.
- Advocate to the Board the appointment proposal to be submitted to the General Meeting of the components of the governing bodies of Banco Caixa Geral, S.A.
- Report favourably to the Board on the regulatory update affected by the definition of key management personnel: suitability of key management personnel and determination of the group identified.
- Show agreement with the proposed Director Training Plan for the 2019 period.
- Submit agreement to the 2019 Scorecard, agreeing to submit a favourable proposal to the Board for its update.
- Report to the Board on the commitment of the directors.
- Inform the situation point about the evaluation of the effectiveness of the functioning of the Board as a whole and of its 2018 Committees.
- Show agreement, together with the Remuneration committee, regarding the preliminary proposal of 2019 SRV, agreeing to its submission to the Board.
- Take account of the report on the statement of office in Aena SME, S.A. notified by Iglesias Herraiz, stating that it does not affect the maintenance of suitability conditions.
- Agree to submit to the Board the content of the different sections of the IAGC 2018 of ABANCA that affect the scope of its powers.
- Submit a favourable proposal to the Board on the information on the remuneration of directors and senior management to be included in the Annual Accounts Report for the 2018 financial year.
- Agree to submit to the Board a proposal to the General Meeting to set the maximum number of Board members, within the limits established in the Bylaws. Similarly, submit a favourable proposal to ratify the appointment by co-optation of Leticia Iglesias Herraiz as an independent director of the company.
- Take account of the report on the statement of office in LAFISE VALORES notified by Eraña, concluding that it does not affect the maintenance of the suitability conditions.
- Submit a favourable proposal to the Board for the candidacy of Ana Barros as a director of ABANCA, requesting that a suitability report be submitted.
- Take account of the appointment of managers, as well as the composition of the Corporate Governance System of ABANCA Portugal.
- Submit a favourable proposal to the Board for the appointment of Pedro Veiga as Strategic Planning and PMO General Manager.
- Submit a favourable proposal to the Board for the appointment by co-option of Ana Barros as an independent director of the Board of Directors appointed by co-option of ABANCA.
- Display compliance with the Succession Plan of the Board of Directors, submitting the Plan to it.

- Submit analysis regarding the dedication of the non-executive directors of ABANCA in light of the report published by the ECB In August 2019, "Report on declared time commitment of non-executive directors in the SSM".
- Submit a favourable proposal to the ASF Board of Directors for the appointment of the general manager of that company.
- Advocate to the Board the appointment by co-option of Manuel López Figueroa as an independent director of ABANCA.
- Report to the Board on the degree of compliance with the CNMV 1/2019 Technical Guide on Appointments and Remuneration Committees.
- Submit a favourable report to the Board for the approval of the Appointments Committee Regulations.

REMUNERATION COMMITTEE

Name or company name	Post	Category
CARINA SZPILKA LÁZARO	CHAIRPERSON	INDEPENDENT DIRECTOR
JOSÉ GARCÍA MONTALVO	MEMBER	INDEPENDENT DIRECTOR
PEDRO RAÚL LÓPEZ JÁCOME	MEMBER	OTHER EXTERNALS

% of proprietary directors	0%
% of independent directors	66.66%
% of other externals	33.33%
Number of meetings	7

Explain the functions, including, where appropriate, those additional to those stipulated by law, which are attributed to this committee, and describe the procedures and rules for its organization and operation. For each of these functions, indicate their most important actions during the financial year and how each of the functions assigned have been exercised in practise, whether by law, bylaws or other corporate agreements.

According to article 116 of the Board Regulations, the Remuneration Committee shall comprise a minimum of three (3) directors. all of them non-executive. At least one third of these members (or, if superior, two of its members) and, in any case, the chairperson, must be independent directors.

The members of the Remuneration Committee shall be appointed by the Board of Directors, taking into account the knowledge, skills and experience of the directors and the tasks of the Committee. The Committee shall have a secretary and, optionally, a deputy secretary, who may be persons other than the secretary and deputy secretary of the Board of Directors. The deputy secretary shall replace the secretary in cases of absence, disability or vacancy.

The committee shall meet, ordinarily, on a monthly basis and, in addition, as many times as called by its chairperson, either on its own initiative, at the request of the chairperson of the Board or at the request of at least one third of its members. Similarly, it will also meet every time the Board of Directors or its chairperson requests the issuance of a report or the adoption of proposals.

The Committee shall be validly constituted with the assistance, present or represented, of more than half of its members and shall adopt its agreements by a majority of the attendees, present or represented, its chairperson having the casting vote.

The members of the Committee may delegate their representation to another of them. The agreements of the Committee shall be recorded in a minutes book, which shall be signed, for each of them, by the chairperson and the secretary. The relevant documentation for each meeting (draft agenda, presentations, minutes of previous meetings, etc.) shall be stipulated to the members of the committee 3 business days prior to the meeting, unless urgent reasons prevent this deadline being met, in which case the information shall be stipulated to the directors as soon as possible.

Meetings may be held in several rooms simultaneously, provided that the interactivity and intercommunication between them is ensured by audio-visual or telephone means. In this case, the connection system and, if applicable, the places where the technical means necessary to attend and participate in the meeting are available, shall be recorded. The agreements shall be regarded as adopted in the place where the majority of the Committee members are located and, in case of equality, in the registered office.

Notwithstanding other tasks assigned by the Board, Remuneration Committee shall have, at least, the following functions:

1. Propose to the Board of Directors the remuneration policy for directors (which must be submitted to a vote by the General Meeting, in accordance with the provisions of article 24 section 7 of the Board Regulations) and that of the senior executives of the Company, as well as the individual remuneration and other contractual conditions of the executive directors, ensuring their observance;

2. Directly supervise the remuneration of the managers in charge of risk management and with compliance functions;

3. Periodically review the remuneration programmes for their updating, ensure that the remuneration of directors and senior managers comply with criteria of moderation and adequacy with the results of the Company and that the remuneration policies of these and other members of the group identified (as this term is defined in the applicable regulations) do not offer incentives to assume risks that exceed the level tolerated by the Company, so that they promote and are compatible with adequate and effective risk management.

Additionally, the remuneration policy of the group identified shall be subject, at least once a year, to a central and independent internal evaluation, in order to check whether the remuneration guidelines and procedures adopted by the Board of Directors are complied with;

4. Verify the independence of the external advisers that are hired, as the case may be, as remuneration experts, adopted by the Board of Directors;

5. Ensure the transparency of the remuneration policies in the terms stipulated by the applicable regulations and the observance of the remuneration policy established by the Company;

6. Assess the fulfilment of the objectives to which the remuneration is linked, as well as the need, where appropriate, to apply risk adjustments to that remuneration; and

7. Any others stipulated in the Regulations of the Board of Directors or in the applicable regulations.

For the best performance of its functions, the Remuneration Committee may seek the advice of external professionals on matters within its competence.

Following the recommendations of the Technical Guide of 20 February 2019, on the CNMV appointments and remuneration committees, the Board of Directors approved the Remuneration Commission Regulation at its meeting on 02 March 2020.

During the 2019 financial year, its main actions have been, among others, to:

- Submit to the Board the 2018 Remuneration Committee Activity Report.
- Inform the Board favourably of the revision of the Remuneration Policy proposed by the DG of Human Capital.
- Propose to the Board the setting of 2019 treasury stock targets.
- Propose to the Board the update of the Scorecard for the 2019 period.
- Agree with the preliminary proposal for SRV 2019.
- Report favourably to the Board on the update of "Document of practical application of the criteria for determining the group identified".
- Submit a favourable proposal to the Board in order to maintain the valuation formula established in the Regulations without making adjustments, for the purposes of determining the share price of ABANCA with a view to the payment of part of the 2019 variable remuneration.
- Agree to submit to the Board the content of the different sections of the ABANCA 2018 IAGC 2018 that affect the scope of its powers.
- Advocate to the Board the information on the remuneration of directors and senior management to be included in the memory of the Annual Accounts for the 2018 financial year.
- Agree to submit to the Board a proposal to the General Meeting to set the maximum amount of the annual remuneration of the directors, as well as the update of the Board of Directors' Remuneration Policy.
- Propose to the Board the detailed recommendation for the adoption by the General Meeting of an agreement regarding the limit of the relationship between RF and RV.
- Agree to submit to the Board a proposal for the General Meeting in order to approve the payment of a part of the variable remuneration in the form of shares of ABANCA to certain categories of personnel whose activities have a significant impact on risk profile.
- Inform the Board favourably of the performance evaluation of the CEO for 2018.
- Submit a favourable proposal to the Board for the payment of the VR concerning the CEO in accordance with the general regulations and the Salary Policy of Grupo ABANCA, as well as for the approval of the 2018 SRV regarding 1st and 2nd level and the members of the group identified.
- Agree to submit to the Board favourable proposal for the approval of the design SRV 2019 regarding the template.
- Submit to the Board for its information the information stipulated on the decision of the ECB relating to the request made by ABANCA regarding the repurchase of own funds without substitution.
- Receive information on the news regarding remuneration introduced by the Capital Requirements Directive V (CRD V) of the European Parliament and of the Board.
- Receive a report on the remuneration policy corresponding to 2018.
- Report to the Board on the degree of compliance with the CNMV 1/2019 Technical Guide on Appointments and Remuneration Committees.

COMPREHENSIVE RISK COMMITTEE

Name or company name	Post	Category
JOSÉ GARCÍA MONTALVO	CHAIRPERSON	INDEPENDENT DIRECTOR
JOSÉ RAMÓN RODRIGO ZARZA	MEMBER	INDEPENDENT DIRECTOR
PEDRO RAÚL LÓPEZ JÁCOME	MEMBER	OTHER EXTERNALS
LETICIA IGLESIAS HERRAIZ	MEMBER	INDEPENDENT DIRECTOR

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	75%
% of other externals	25%
Number of meetings	12

Explain the functions assigned to this committee, and describe the procedures and rules for its organization and operation. For each of these functions, indicate their most important actions during the financial year and how each of the functions assigned have been exercised in practise, whether by law, bylaws or other corporate agreements.

According to article 13 of the Board Regulations, the Comprehensive Risk Committee shall comprise a minimum of three (3) directors. all of them non-executive. At least one third of these members must be independent directors.

The members of the Comprehensive Risk Committee shall be appointed by taking into account the knowledge, skills and experience of the directors in order to fully understand and monitor the Company's risk strategy and risk appetite, as well as the tasks of the Committee. The committee shall be chaired by an independent director. The Committee shall have a secretary and, optionally, a deputy secretary, who may be persons other than the secretary and deputy secretary of the Board of Directors. The deputy secretary shall replace the secretary in cases of absence, disability or vacancy.

The committee shall meet, ordinarily, on a monthly basis and, in addition, as many times as called by its chairperson, either on its own initiative, at the request of the chairperson of the Board or at the request of at least one third of its members. Similarly, it will also meet every time the Board of Directors or its chairperson requests the issuance of a report or the adoption of proposals.

The Committee shall be validly constituted with the assistance, present or represented, of more than half of its members and shall adopt its agreements by a majority of the attendees, present or represented, its chairperson having the casting vote.

The members of the Committee may delegate their representation to another of them. The agreements of the Committee shall be recorded in a minutes book, which shall be signed, for each of them, by the chairperson and the secretary. The relevant documentation for each meeting (draft agenda, presentations, minutes of previous meetings, etc.) shall be stipulated to the members of the committee 3 business days prior to the meeting, unless urgent reasons prevent this deadline being met, in which case the information shall be stipulated to the directors as soon as possible.

Meetings may be held in several rooms simultaneously, provided that the interactivity and intercommunication between them is ensured by audio-visual or telephone means. In this case, the connection system and, if applicable, the places where the technical means necessary to attend and participate in the meeting are available, shall be recorded. The agreements shall be regarded as adopted in the place where the majority of the Committee members are located and, in case of equality, in the registered office.

Notwithstanding any other tasks that may be assigned to it at any time by the Board of Directors, the Comprehensive Risk Committee shall exercise, at least, the following functions:

1. Advise the Board of Directors on the Company's current and future global risk appetite and its strategy in this area, and assist it in monitoring the implementation of that strategy.

2. Ensure that the pricing policy of the assets and liabilities offered to customers fully takes into account the Company's business model and risk strategy. Otherwise, the committee shall submit to the Board of Directors a plan to correct it.

3. Determine, together with the Board of Directors, the nature, quantity, format and frequency of information on risks that the committee and the Board of Directors must receive.

4. Collaborate to establish rational remuneration policies and practices. To this end, the committee shall examine, notwithstanding the functions of the Remuneration Committee, whether the incentive policy stipulated in the remuneration system takes into account risk, capital, liquidity and the probability and timing of benefits.

5. Propose the selection, appointment, re-election and removal of the director of the risk management unit (Managing Director of Corporate Control and Risks).

6. Any others stipulated in the Regulations of the Board of Directors or in the applicable regulations.

For the proper exercise of its functions, the Board shall ensure that the committee can easily access information about the Company and its risk situation, including access to the General Director of Corporate Control and Risks and specialized external advice, if necessary. Similarly, the General Director of Corporate Control and Risks shall have full access to the Comprehensive Risk committee, through its chairperson.

During the 2019 financial year, its main actions have been, among others, to:

- Submit to the Board the Activity Report of the 2018 Comprehensive Risk Committee.
- Take account of the news and follow-up of the Law on Data Protection and Digital Rights Management.
- Report on the proposed methodology for risk assessment, thresholds and calibration, as well as the Preliminary List of Risks.
- Report the result of the 2018 Maturity Level measurement according to the Gartner IT Score model in the functions of Information Security, Identity and Access Management, Privacy, Business Continuity and Technological Risk Management.
- Submit a favourable proposal to the Board for the approval of the requested RAROC powers.
- Advocate to the Board the approval of the modifications applied in the re-estimation of IFR9 parameters carried out in 2018, and of the modifications requested in the models.
- Submit a favourable proposal to the Board for the approval of the actions derived from the validation of the internal monitoring policies.

- Propose to the Board the approval of the Model Governance Framework.
- Record the degree of progress of the Advanced Models of Capital project plan.
- Submit a follow-up on the Panel of Strategic Indicators for Comprehensive Risk Management.
- Submit a favourable proposal to the Board for setting the 2019 treasury stock objectives.
- Display agreement with the modifications incorporated in the Remuneration Policy by submitting a report to the Board.
- Submit a proposal for updating the 2019 Committee scorecard 2019.
- Receive information about the requirement of MREL from the Bank as established by SRB.
- Submit a favourable report to the Board for the approval of the 2019 RAF document.
- Take account of the completion of the risk identification and quantification process of the ICAAP based on the proposed list of risks.
- Receive the presentation of the monographic report on 2018 Inflow.
- Receive information on the launch of the development of the 2019 NPEs Strategic Management Plan.
- Submit a favourable proposal to the Board for the approval of the modifications requested in relation to the TRIAD Monitoring of Development and Monitoring Models.
- Show agreement with the internal validation of the calculation of the solvency numerator undertaken with data on 31 December 2018.
- Take account of the publication of the "EU-wide Transparency Exercise 2018" and the presentation of the analysis of the densities of Spanish entities according to data from the 2017 Transparency Exercise compared with those of the 2018 financial year.
- Be aware of the presentation of the report on the statistics of detection and response to cybersecurity events in 2018.
- Propose to the Board the approval of the Resolution Plan Policy.
- Receive information related to the Follow-up of the Panel of Strategic Indicators for Comprehensive Risk Management.
- Propose to the Board the update of the "Document of practical application of the criteria for determining the group identified".
- Express agreement with the content of the brief presented in response to the draft decision of the SRB on the minimum requirements of own funds and legal liabilities.
- Submit a favourable proposal to the Board for the ratification of the policies and procedure manuals of the new operational branch in Miami.
- Submit a favourable proposal to the Board in order to approve the target levels for the set of 2019 RAF indicators.
- Record the Resolution Plan: Working Priorities.
- Submit a favourable proposal to the Board in order to approve the 2019-2021 NPEs strategy.
- Submit a favourable proposal to the Board for the approval of the Policy for determining Risk-Weighted Assets.
- Submit a proposal to the Board with a view to approving the modifications and updates in the regulations/policies and credit risk admission circuits.
- Agree, jointly with the Audit and Compliance Committee, to propose to the Board the formulation of the individual and consolidated annual accounts and management reports for the 2018 financial year. Similarly, report favourably on the approval of the 2018 RSC Annual Report and, therefore, of the state of non-financial information,
- Submit a favourable proposal to the Board for the Covered Bonds issuance program.
- Submit a proposal to the Board, after a favourable report from the Remuneration Committee and the Appointments Committee, for the payment of the 2018 RV due to the CEO. Similarly, agree on the approval of the 2018 SRV subscription pertaining to the 1st and 2nd level and to the members of the group identified.
- Advocate to the Board the 2019 Variable Remuneration Policy for the CEO and 2019 SRV for the staff.

- Propose to the Board the approval of the manuals that develop the Data Governance Policy, that is, the Claim Management Procedure, Incident Management Procedure, Quality Procedure, Traceability Procedure and Information Use Procedure,
- Submit a favourable proposal to the Board for the approval of the Report on Capital Self-Assessment (ICAAP) and the 2018 Internal Liquidity Adequacy Assessment Process (ILAAP).
- Submit a favourable report to the Board for the approval of the 2019 RAF document.
- Report favourably to the Board in order to approve the2018 ICAAP and ILAAP.
- Submit proposal to the Board for the approval of the Entity's Capital Plan.
- Advocate to the Board the approval of updates to the Corporate Risk Framework and the Entity's risk policy manuals.
- Submit proposal for approval to the Board of the Entity's Scorecard for Key Technology Risk Indicators).
- Agree on an action plan to undertake the transition to the new benchmarks.
- Submit a favourable proposal to the Board for the approval of the Miami Risk Appetite Framework.
- Submit a proposal to the Board for approval of the issuance of the final internal validation report regarding the models of IFRS 9.
- Raise for the Board's information the follow-up of the Panel of Strategic Indicators of Comprehensive Risk Management, as well as, where appropriate, the ratification of the decisions taken.
- Report favourably to the Board for approval of the Governance of the Resolution Plan.
- Submit a report to the Board with a view to approving adaptations to the RAROC methodology.
- Submit a favourable report to the Board for approval of the Internal Validation Framework and Guidelines and the Risk Map.
- Report favourably to the Board on the update of the Operational Risk Policy.
- Submit a favourable proposal to the Board in order to process the authorization for use by ASF in Portugal of ABANCA's "community passport" with a view to providing the services it has been undertaking through its Portuguese branch.
- Submit a favourable proposal to the Board for the approval of the modifications in the 2018 Recovery Plan concerning points: CBL´s, MLE´s and CEF´s, Recovery Indicators, Scenarios, Recovery Measures, Governance and Communication Plan, and Dryrun.
- Report to the Board on the main conclusions of the Portuguese Comprehensive Risk Committee and on the main conclusions of the Operational Risk Committee.
- Submit a favourable proposal to the Board to approve the update of the Internal Communication of Economic Groups.
- Submit a proposal to the Board for updating the Market Risk Manual.
- Submit a favourable proposal to the Board for the approval of the Recovery Indicators (calibration and rational), Scenarios and Recovery Measures (impacts on the scenarios) of the 2018 Recovery Plan, with the modifications suggested by the directors.
- Advocate to the Board the approval of the proposals arising from the annual follow-up process of the Mortgage Reactive Scoring models. Similarly, inform the Board of the proposals arising from the annual monitoring process of the Rating models.
- Submit a favourable proposal to the Board for the approval of the methodology for obtaining A-IRB parameters.
- Submit a proposal to the Board for approval of the response and action plans on demand 2019 SREP of ECB.
- Submit a favourable report to the Board for the approval of the 2018 Recovery Plan.
- Advocate to the Board the approval of changes in the self-employed model.
- Receive information about the main conclusions of the Comprehensive Risk Committee of Portugal.

- Agree to propose to the Board the expansion of the methodology used in the estimation of ARs for investment credits, as well as for the approval of the update of the ARs allocation policy manual.

D RELATED PARTY TRANSACTIONS AND INTRAGROUP OPERATIONS

D.1. Detail the operations carried out between the entity or entities of its group, and the shareholders, cooperative members, proprietors of proprietary rights or any other of an equivalent nature of the entity.

At the end of the 2019 financial year, the outstanding transactions and balances held with shareholders, cooperative members, holders of proprietary rights or any other of an equivalent nature of the Entity, reach the following amounts (thousands of euros):

Loans granted: 35,040

Deposits: 24,147

Other transactions: 37,029

Financial income: 392

Financial expenses: -

D.2. Detail the operations carried out between the entity or entities of its group, and the managers or members of the administrative body, or managers of the entity.

At the end of the 2019 financial year, the outstanding operations and balances maintained with the Entity's managers and executives reached the following amounts (thousands of euros):

Loans and credits granted 3,832

Deposits: 5,168

Other transactions: -

Financial income: 25

Financial expenses: 46

D.3. Detail intragroup operations.

At the end of the 2019 financial year, outstanding operations and balances held with multi-group companies or entities and associates of the Grupo ABANCA Corporación Bancaria, S.A., which are not eliminated in the consolidation process, reach the following amounts (thousands of euros):

Loans granted: 122,830

Deposits: 18,748

Other transactions: 6,724

Financial income: 4,986

Financial expenses: 1

D.4. Detail the mechanisms established in order to detect, determine and resolve possible conflicts of interest between the entity or its group, and its directors or members of the administrative body, or managers.

As established in the article 28 of the Bank's Board Regulations, the director must abstain from:

1. Carrying out operations with the Company, except in the case of ordinary operations, under standard conditions for customers and of little relevance, such operations being understood as those whose information is not required in order to express the true and fair image of corporate net worth, the financial situation and the Company results.

2. Using the name of the Company or invoke his/her status of director in order to unduly influence the performance of private operations.

3. Making use of the company's assets, including the Company's confidential information, for private purposes.

4. Taking advantage of the Company's business opportunities.

5. Obtaining advantages or remuneration from third parties other than the Company and its Group associated with the performance of their position, except in the case of mere acts of courtesy.

6. Carrying out activities for their own account or for the account of others that involve effective competition, whether current or potential, with the Company or which, in any other way, place them in a permanent conflict with the interests of the Company.

The foregoing provisions shall also apply in the event that the beneficiary of the prohibited acts or activities is a person related to the director. For the purposes of these regulations, the following shall be considered as persons related to the directors:

1. The spouse of the director or people with a similar personal relationship.
2. The ascendants, descendants and siblings of the director or the director's spouse.
3. The spouses of the ascendants, descendants and siblings of the director.
4. The companies in which the director, by him- or herself or by an interposed person, is in any of the situations listed in the first section of article 42 of the Commercial Code.
5. In the case of a legal entity director, those indicated in article 231.2 of the Capital Company Act.

The cases that have been authorized by the Company in accordance with the Law, the Bylaws and the Board Regulations are excepted.

The authorization must necessarily be agreed by the General Meeting when the purpose is to dispense with the prohibition of obtaining an advantage or remuneration from third parties, affects a transaction worth more than ten percent of the company's assets, or refers to the obligation to not compete with the Company.

In other cases, authorization may be granted by the Board of Directors provided that the independence of the members who grant it with respect to the excused director is guaranteed. In addition, the safety of the authorized operation for corporate assets or, where appropriate, its execution under market conditions and the transparency of the process is necessary.

The obligation not to compete with the Company may only be waived in the event that there is no reason to expect harm to be caused to the Company or where compensation for the benefits expected to be obtained from the waiver can be expected. The waiver shall be granted by means of an express agreement separate from the General Meeting, in which the authorized competitive activities shall be specified.

At the request of any partner, the General Meeting shall decide on the dismissal of any manager who engages in competitive activities when the risk of harm to the Company has become relevant.

Directors must notify the Board of any direct or indirect conflict situation that they or, to the extent that they are aware of them, the persons related to them (as defined in section 2 of article 27 of the Board Regulations), may have with the interest of the Company. The conflict situations in which the Company's managers find themselves shall be detailed in the report and in the annual corporate governance report. In addition, the directors must communicate the direct or indirect holding that both they and their related parties, insofar as they are aware of them, have in the capital of a company with the same, analogous or complementary type of activity stipulated in its business purpose, and shall also notify as to the positions or the functions they exercise in it.

As established in article 29 of the Bank's Board Regulations. “Related Transactions”

The board shall at least be aware of the operations that the Company or its Group companies undertake with directors (in the terms stipulated by law and in article 28 of the Board Regulations), with shareholders, individually or in concert with others, who hold a significant share, including shareholders represented on the Board of Directors of the Company or other Group companies or with persons related to them.

The execution of these operations shall require the authorization of the Board, after a favourable report from the Audit and Compliance Committee, except in cases where its approval pertains by law to the General Meeting. The aforementioned operations shall be valued from the point of view of equal treatment and market conditions, and be included in the annual 28 corporate governance report and in the periodic public information in the terms stipulated in the applicable regulations.

There shall be no obligation to inform the Board, nor to obtain the authorization stipulated in the previous section when dealing with operations that simultaneously meet the following three conditions: (a) they made under contracts whose conditions are standardized and applied en masse to a large number of customers. (b) they are carried out at prices or rates established in general by the person acting as the supplier of the good or service in question or, when the operations refer to goods or services in which there are no established rates, are carried out in usual market conditions, similar to those applied in business relationships with customers of similar characteristics; and c) their amount does not exceed zero point five percent of the Company's annual income, according to the audited individual annual accounts of the last financial year ending on the date of the operation in question, a percentage that was reduced (previously it was the one percent) in application of the aforementioned Corporate Policy on Operations with Related Parties.

Exceptionally, when urgent reasons so advise, in accordance with the last paragraph of section 4, article 4 of these regulations, related-party transactions may be authorized by the CEO, with subsequent ratification by the Board.

Notwithstanding the foregoing, the granting of credits, warranties and guarantees by the Company, in favour of its directors, general or similar directors, shall be subject, in addition, to the prior authorization of the Bank of Spain. As an exception, the authorization referred to in the preceding paragraph shall not require the granting of a credit, warranty or guarantee that: a) is covered by the collective agreements concluded between the Company and all of its employees. b) is carried out pursuant to contracts whose conditions are standardized and are applied en masse and on a regular basis to a large number of customers, provided that the amount granted to the same person, their second-degree relatives or the companies in which these people have a controlling interest equal to or greater than 15 percent, or whose board they are part of, does not exceed 200,000 euros. The concession of the above operations shall be notified to the Bank of Spain immediately after its concession.

Pursuant to the provisions of the Regulations of the Board of Directors, article 29 bis "Breaches", in the event that the directors seriously or repeatedly fail to comply with the provisions of Chapter IX of the Board Regulations, the Appointments Committee, on its own initiative or at the request of the Audit and Compliance Committee or the Board of Directors, shall gather the necessary information and formulate a proposal for action that it shall submit to the Board of Directors. This proposal may include a serious warning to be imposed, where appropriate, by the Audit and Compliance Committee. In this case, once the serious warning has been imposed, the Appointments Committee must issue a report, to be submitted to the Board of Directors, on the advisability of the removal of the manager, in accordance with section 2.3 of article 20 of the Board Regulations.

Similarly, the Bank has a Code of Ethics and Conduct, an Internal Code of Conduct in the area of the Securities Market, a Conflicts of Interest Management Policy implementing this, and a Corporate Policy on Operations with Related Parties that includes the general principles established by the Bank for conflicts of interest management.

In relation to the codes of ethical principles or good practices to which the Bank has voluntarily adhered, ABANCA CORPORACIÓN BANCARIA, S.A. is attached, since March 2012, to the Code of Good Practice included in the Annex to the Royal Decree-law 6/2012, of urgent measures to protect mortgage debtors without resources. Similarly, ABANCA CORPORACIÓN BANCARIA, S.A. is adhered to the Code of Good Practices for the viable restructuring of debts with a mortgage guarantee on habitual residence, with the modifications introduced in Law 1/2013, of 14 of May, for measures to strengthen the protection of mortgage debtors, debt restructuring and social rent, from July 2013.

Furthermore, corporate social responsibility has been a strategic priority for ABANCA from the outset. The Entity strongly wishes for its activity to serve as an impetus for social improvement and sustainable growth, and it is committed to doing so transparently and in accordance with the ten principles of the Global Compact, as well as with the development objectives approved by United Nations. As a sign of the commitment to disseminate these objectives among all Bank professionals, the Company joined the #Companies4SDGs campaign. The purpose of ABANCA is to align the lines of action of the social responsibility strategy in this area in order to help achieve the objectives established in the Agenda 2030, an action plan that seeks to improve the life, in a sustainable way, of future generations.

E RISK CONTROL SYSTEMS

E.1. Explain the scope of the entity's Risk Control and Management System.

The Group's risk management and control model follows the Basel guidelines, establishing a transversal risk management that encompasses the entire organization, and is defined in three lines of defence:

i. **First line of defence**: management and control functions performed by the Group units, understood as the Business and Credit Units. In this line are the primary controls.

ii. **Second line of defence**: control functions carried out independently and in accordance with comprehensive risk management, through DG Corporate Control and Risks and DG Corporate Governance and Legal Affairs, addressing all types of risks to which the Bank would be exposed. Establishes regulations and monitors compliance with the first line.

iii. **Third line of defence**: supervisory functions performed by Internal Audit.

With this model, the Group seeks to guide the Entity towards the best banking practices, promoting risk culture and undertaking comprehensive risk management, which includes the review of key operational processes, in order to guarantee solvency and Bank resilience according to the Risk Profile defined by the Governing Bodies.

The quality of risk management constitutes a focal point of action for the Group. The Group's risks policies are directed at maintaining a medium-low profile, with its risk management model constituting a key element in achieving its strategic objectives.

The Group has therefore implemented comprehensive risk management in which the definition and control of Risk Appetite is one of the key elements, this being necessary to guarantee compliance with the desired risk profile, consistent and coherent with the annual budget approved in the medium-term strategic plan.

The Group defines risk appetite as the amount and type of risks that is considered reasonable to assume in the execution of the business strategy considering each of the types of risks, so that it can maintain its ordinary activity against the occurrence of unexpected events. For this, severe scenarios are considered that could have a negative impact on its capital, liquidity and/or profitability levels.

The Entity carries out an active management of the entire life of the risk, from the pre-analysis, through the analysis/concession, follow-up and until the extinction. The main risks are not only analysed at the time of their origination or when irregular situations arise in the ordinary recovery process, but are carried out continuously for all customers.

Credit risk management is also supported by credit management tools such as scoring models (private, self-employed and micro-SMEs), rating systems (exposures with medium and large companies) and pre-classifications (large customers).

The Bank's exposure information and aggregation systems enable the monitoring of exposures, verifying systematic compliance with the approved limits, as well as adopting, if necessary, the pertinent corrective measures. The status of the Bank's main portfolios is regularly monitored and presented to the Board.

The Bank has a risk limit system that is updated with a minimum annual frequency and that covers credit risk, as well as the different exposures of market risk, both trading and liquidity, and structural, interest rate risk and liquidity, to which exhaustive monitoring is applied, encompassing the highest Governing Bodies.

E.2. Identify the company bodies responsible for the development and execution of the Risk Control and Management System.

The Board of Directors is entrusted with the function of setting the Entity's general risk policy, authorizing the system of established control limits and periodically monitoring compliance therewith, as well as determining the risk appetite framework.

The Comprehensive Risk Committee monitors risk management and control in order to guarantee the content, integrity and effectiveness of the risk appetite framework (hereinafter, the RAF), advising the Board on risk matters. To do this, it periodically monitors the Group's risk profile. Furthermore, the committee ensures that the Group's actions are consistent with its level of risk tolerance and, in this sense, establishes global limits on the main risk exposures, carrying out follow-up work through the systematic review, and establishing the necessary actions in case of deviations. It is also in charge of global risk control (credit, market, liquidity, interest and operational).

The role of the Audit and Compliance Committee includes the supervision of the effectiveness of internal control and risk management systems, so that the main risks are adequately identified, managed and disclosed.

The Delegate Credit Committee has delegated the powers that pertain to the Board of Directors in relation to the granting and monitoring of financing operations, whatever their nature. In turn, this committee delegates the sanction of certain operations to lower committees, in accordance with the provisions of the Bank's General Standard on Attributions (approved through the Comprehensive Risk Committee).

The Management Committee is the committee responsible for proposing and monitoring the Strategic Plan, the Annual Global Budget and the Entity's Annual Operating Plan. This committee is also responsible for approving the Entity's annual general objectives and its distribution by business lines, responsibility centres and segments; as well as making relevant corporate decisions or monitoring the Entity's day-to-day business. The Management Committee, supported by the General Management of Corporate Control and Risks, periodically reviews the control environment, internally monitoring the main risks.

The Assets and Liabilities committee (COAP) is the body responsible for designing the financial strategy, including, amongst others, the Equity Adequacy Policies, Rate Setting, Funding Strategy, Strategy and investment policies; ensuring compliance. Similarly, it defines the operational objectives in terms of financial management (balance sheet, liquidity and margin) in order to meet the strategic objectives. It is in charge of the correct implementation of asset and liability management strategies, transmitting to the Capital Markets General Management, Management and Distribution the operating instructions for the proper management of the Entity's liquidity. Finally, it monitors trade policy.

E.3. Indicate the main risks that may affect the achievement of business objectives.

In accordance with the current situation in the environment and due to the Bank's own structure, liquidity and market risks are not presented as those that may have a greater impact in achieving business objectives, whereas credit, interest rate and operational risks could mainly do so.

Credit risk would be more affected by the evolution of the outstanding portfolio than by the new production portfolio. This focuses on risk monitoring and early reaction to indicators of deterioration of borrowers, as well as the establishment of specialized admission channels with the establishment of maximum admissibility thresholds for expected loss.

The influence of interest rate risk in achieving the objectives is not currently motivated by events that may affect the interest rate curve, but rather by the levels at which the curve is currently moving with negative values in various tranches, which pushes down the margin of the sector. Added to this is a strongly competitive context in a market with an intense decline in spread in recent months, which is why the monitoring of both the curve (interest risk) and production prices is intensified in order to make the decisions considered appropriate in every moment. In addition, the Bank focuses on managing risk-associated returns in order to maximize the return on capital in an unfavourable interest rate environment for margin creation.

The Entity continuously improves operational risk management, through new control tools, and having reinforced internal control mechanisms to prevent, among others, possible fraud in those borrowers who are in a worse economic situation.

E.4. Identify if the entity has risk tolerance levels.

As a fundamental element in risk management, the Bank has defined a framework for risk appetite (hereinafter RAF, "Risk Appetite Framework"), through which the Group's Governing Bodies explicitly define the desired and maximum levels of risk (appetite and tolerance) that they are willing to assume.

This exercise is carried out both at the global risk level and for each of the relevant risks that the Group faces in its activity. The maximum representatives of the Entity and its Governing Bodies intervene in the conception of the Bank's RAF. The document is approved at the level of the Board of Directors, with the prior approval of the Comprehensive Risk Committee, after having been submitted to the Comprehensive Risk Committee. Additionally, the members of the Management Committee have a very active participation in the conceptualization and establishment of Appetite based on the strategic planning defined for the Bank.

The definition of appetite and tolerance is made by selecting the set of both qualitative and quantitative indicators, after calibrating the desired (appetite) and maximum (tolerance) levels.

The definition of the RAF considers all the relevant risks to which the Group is exposed in the development of its activity, as well as in the achievement of its business objectives. For this reason, the criteria established in the RAF shall be taken into account at all times within the normal circuits of analysis and approval of operations. Specifically, the established and monitored indicators correspond to the following risk categories:

i. **Business and strategic risk**: the risk in the business, in its results and/or in the bank's solvency, arising from possible damages due to failures in the evaluation of the environment, due to inappropriate decisions regarding business orientation or due to lack of bank's response to relevant changes in the sector.

ii. **Credit Risk**: originates from the possibility of losses arising from the total or partial default of the financial obligations contracted by the group by its customers or counterparties. This concept includes the risk arising from the concentration of credit risk, given the impact that this aspect may have on the Entity's solvency.

iii. **Interest Rate Risk**: is the possibility that variations in interest rates may adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects, amongst others, loans, deposits, debt securities, most of the assets and liabilities of the trading portfolios, as well as derivatives.

iv. **Liquidity and Financing Risk**: The ability of an entity to finance its growth and to meet its payment obligations at maturity, without incurring unacceptable losses.

v. **Market Risk**: The risk of incurring losses, and therefore the risk of a negative impact on the Group's results and capital, due to the maintenance of open positions in the financial markets, as a consequence of an adverse movement in the financial variables (factors of risk) that determine the market or realization value of these positions.

vi. **Operational Risk:** the risk of losses resulting from deficiencies or failures of internal processes, human resources or systems, or derived from external circumstances, including legal risk and aspects related to technological risk.

vii. **Reputational Risk:** this is linked to the perception of the Group of the different interest groups with which it is related, both internal and external, in the development of its activity, and which may have an adverse impact on the results or expectations of business development.

E.5. Indicate which risks have materialized during the year.

During the 2019 financial year, there have been no significant events that have affected the Entity's risk profile according to the Risk Appetite Framework defined for that financial year, and at the end of the financial year all the indicators are at the expected levels.

The risks are monitored on a monthly basis, presenting themselves to the Governing Bodies. Through it, it is verified that the Entity is in a controlled risk position and adequate control of the positions assumed is guaranteed. For all risks, the opportune analysis and evaluation of trend and behaviour is undertaken, counting at all times with the explanations of their movement, including the details of the regulatory/normative changes.

E.6. Explain the response and supervision plans for the entity's main risks, as well as the procedures followed by the company to ensure that the board of directors responds to the new challenges that arise.

The plans are implemented in two blocks:

A. The organizational structure associated with the risk function.

In line with section E1, ABANCA has an organizational model of risk control and management that encompasses the entire organization, and which is specified in three lines of defence, taking as reference the definition of an RAF at the Entity level, on which the management and supervision of the response is carried out, and from which the following activities are derived:

The Corporate Control and Risks DG participates in the definition of the RAF (monitoring and control) and in the definition of policies and procedures for the management of the different risks, guaranteeing that any deviation will be reported to the Comprehensive Risk committee.

This General Directorate reports directly to the Comprehensive Risk committee, guaranteeing the independence of Risk Control. Its mission is to foster a risk culture throughout the organisation, representing the second line of defence through the comprehensive management of risks, ensuring the solvency and resilience of the Entity in accordance with the risk profile defined by the governing bodies, and leading the Bank towards best practices in risk culture.

Once the RAF has been defined, from the Credit DG and the Capital Markets, Management and Distribution DG (responsible for managing the operations in the Group's wholesale markets), what is established is transferred from day to day and throughout the life of the risk, guaranteeing compliance with said risk appetite framework.

The Entity carries out active risk management throughout its life, following the policies established by the Corporate Control and Risks DG, in search of compliance with the Entity's risk profile. The risk, in this regard, is managed in several stages, which depend on the events that take place during the period in which the transactions are ongoing.

In the credit investment admission phase, a criterion must be applied according to the defined risk profile, seeking a reasonable balance between efficiency and effectiveness through the decentralization of the decision, based on the delegation of powers and the allocation of powers based on of the risk assumed, and relying on the management and control tools implemented.

In the monitoring phase, the Entity's primary objective is the early detection of situations of risk of non-compliance by customers that allow specific action plans to be implemented in order to avoid this occurring, as well as the control and management of collateral associated with assets.

Recovery is centralized in the Recovery Department, currently within the Credit DG, aimed at recovery actions and anticipation of late payments. The actions carried out by this Directorate are aimed at complying with the RAF, monitoring the expected recovery levels, and ensuring that they are in line with those defined in the business plan.

B. The use of appropriate tools and the support of expert analysts.

ABANCA has opted for the development of its own models based on the historical information available and continues its development in this regard, with the ultimate objective of assisting those responsible for the different risks in decision-making, based on criteria of efficiency and experience, with a comprehensive approach to risk, taking into account at all times the implications that certain decisions may have on the Bank's global risk profile. Additionally, for decision making, the developed models are complemented by individualized analyzes carried out by expert analysts for each type of risk.

During the 2017 financial year, ABANCA developed internal credit loss determination models in the framework of the implementation of the new IFRS9 regulations in force since January 1, 2018.

During the 2019 financial year, the Entity continues with its cycle of maintenance and updating of support tools for credit risk management, and continues to increase integration in their management.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (SCIIF)

Describe the mechanisms that make up the risk control and management systems in relation to the process of issuing financial information (SCIIF) of your entity.

F.1. Entity control environment

Report, noting its main characteristics of, at least:

F.1.1. Which organs and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective SCIIF; (ii) its implementation; and (iii) its supervision.

The Board of Directors of Abanca Corporación Bancaria, S.A. (hereinafter, "the Bank" or "the Entity"), is responsible for the existence and maintenance of an adequate and effective Internal Control System for Financial Information (hereinafter, "SCIIF").

The Bank's Bylaws state, in article 27, that the Board of Directors shall assume, without delegation, those powers legally reserved for its direct knowledge, as well as those others necessary for a responsible exercise of the general supervisory function. Additionally, the Regulations of the Board of Directors in article 4 indicates that the Board of Directors, amongst other functions, has the "approval of the main lines of the Company's policies and strategies, as well as the monitoring and supervision of their execution".

For its part, within the Bank's organizational structure, the General Finance Directorate, through the General Audit and Accounting Directorate, which is under its authority, is responsible for the implementation, maintenance and development of the general framework of the internal control systems for financial information, so as to ensure the adequacy of the information prepared by the Bank.

Similarly, the Audit and Compliance Committee Regulations define, through their Art. 5.3, the functions in relation to the internal control and information systems and the internal audit function assigned to it, which are, among others, the following:

- Check the adequacy and integrity of internal control systems and review their appointment and replacement.

- Understand and supervise the preparation and presentation process and the integrity of the mandatory financial information related to the Company and, where appropriate, to its Group.

- Supervise the effectiveness of internal control and risk management systems, so that the main risks are adequately identified, managed and disclosed.

The Bank has an Internal Audit Area, which is under the direct dependence of the Audit and Compliance Committee and whose functions include supervising the compliance, adequacy and effectiveness of internal control procedures and systems, including those information systems.

F.1.2. If they exist, especially in relation to the process of preparing financial information, the following elements:

- **Departments and/or mechanisms in charge of: (i) the design and review of the organizational structure; (ii) clearly defining the lines of responsibility and authority, with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for their correct dissemination in the entity.**

The Directorate General of Human Capital, reporting to the CEO, has defined a flexible Job Map for the organization, and is transparent for the employee.

The Organizational Chart and its functional units are published on the corporate intranet.

The Bank's current organizational structure aims to guarantee a solid model of internal control over financial reporting.

- **Code of conduct, body of approval, degree of dissemination and instruction, principles and values included (indicating if there are specific references to the registration of operations and preparation of financial information), body responsible for analysing non-compliance and proposing corrective actions and sanctions.**

In August 2014, the Bank's Management Body approved ABANCA's Code of Ethics and Conduct. The Code of Ethics and Conduct, with the status of a general rule, is based on the values of Responsibility, Reliability, Quality and Innovation, and the 139 Articles of the Code are included in these four chapters or sections.

All persons belonging to ABANCA have the right and obligation to know the aforementioned Code, comply with and disseminate it to third parties who may be subject to any of its provisions. For this, the Code of Ethics is permanently available to the staff on the intranet.

ABANCA's Code of Ethics and Conduct contains specific references to the preparation of financial information (articles 9, 10 and 73, among the most notable, establishing the last of those mentioned that "ABANCA shall efficiently disseminate its institutional reports and adopt measures to ensure that the financial information, as well as any other that is issued within the framework of its corporate communications, is complete, correct, truthful, symmetrical, equitable and useful over time ") . Regarding the registration of operations, article 30 bis of the code stipulates that "the people who form ABANCA are obliged to adequately account for, record and document all income and expenses, as well as any other accounting item, without omitting, hiding or altering any data or information, so that the accounting and operating records accurately reflect reality and can be verified by the control areas and by the internal and external auditors. Income and expenses must be duly authorized, be stipulated, respond to services actually stipulated and to a legitimate economic purpose.

In July 2017, the Board of Directors of ABANCA approved the anti-corruption policy, which meant the modification of the article 12 of the Code of Ethics and Conduct for its inclusion as an annex/part of the Code of Ethics.

The Anti-Corruption Policy, like the Code of Ethics and Conduct, is applicable to the members of the governing bodies, management team and other bank employees and those persons or entities involved in the provision of services by third parties whose adherence, in the judgement and under the responsibility of the corresponding hiring committees, should be demanded. All of them must know and comply with this.

To monitor the operation and compliance of the Code of Ethics and Conduct, the Ethics Committee has been created to be in charge of ensuring compliance with the standards of ABANCA's Code of Ethics. Its functions shall also include promoting ethics training, solving queries, conflicts of interest that arise, analysing complaints and, where appropriate, sanctioning breaches of the Code of Ethics. The Committee is made up of the CEO, the CEO of Human Capital, the Auditor General, the CEO of Corporate Social Responsibility, the CEO of Corporate Control and Irrigation; and the CEO of Corporate Governance and Legal Affairs.

In addition, to ensure proper compliance with the Code of Ethics and Conduct, there is a Whistleblowing Channel supervised by the Audit Committee and managed by the Internal Audit Unit, in addition to an application to declare and manage potential conflict situations, incompatibilities, etc. between ABANCA and its staff (application of conflicts of interest) whose management is in charge of Human Capital (Employment Consulting). The complaints channel and the application of conflicts of interest are available to the staff on the intranet in the section About ABANCA-Ethical Channels.

Similarly, there is an Internal Code of Conduct in the area of the Stock Market. Its objective is to adjust the actions of the Bank, its administrative bodies, employees and representatives, to the rules of conduct contained in the Securities Market Law and its implementing provisions. In addition, a Conflict of Interest Management Policy is established, in accordance with the aforementioned regulations. All this in order to promote transparency in the markets and preserve, at all times, the legitimate interest of investors. The application of the aforementioned regulations is undertaken through the Regulatory Compliance Committee, which reports directly to the Audit and Compliance Committee.

- **The Whistleblowing channel enables the Audit Committee to report financial and accounting irregularities, in addition to possible breaches of the code of conduct and irregular activities in the organization, informing if appropriate if it is confidential in nature.**

In accordance with the provisions of the Code of Ethics and Conduct of ABANCA Corporación Bancaria S.A.(hereinafter, ABANCA), as well as in the article 12 of the Regulations of the Board of Directors of ABANCA and in the Criminal Risk Prevention Policy and Manual of Grupo Abanca, a mechanism has been established, the Whistleblowing Channel, which allows any internal interest group, professionals and/or Employees of Grupo ABANCA, as well as any employee of the Service or Goods Providers, who had access to information, in the development of their activities within Grupo ABANCA, to confidentially communicate breaches of the Code of Ethics and Conduct, of the Internal Code of Conduct in the Securities Market, as well as any allegedly criminal act or fraudulent or irregular act, regardless of their type or quantity, that they notice in within the Group.

The objectives of the implementation of the Whistleblowing Channel are to:

- Establish an effective measure for the prevention and detection of illegal or irregular behaviour.
- Enable control measures on the activity of the company.
- Contribute to the continuous improvement of internal processes and policies of ABANCA for the management and control of illegal or irregular conduct that may be committed within it.

For this purpose, the following have been established as basic principles:

- The confidentiality of the identity of the complainant and protection against retaliation.
- The processing of personal data in strict compliance with the provisions of the Regulations (UE) 2016/679 of the European Parliament and Board of 27 April 2016 relating to the protection of natural persons with regard to the processing of personal data and the free movement of these data, in the Law 3/2018, of 5 December, Protection of Personal Data and guarantee of digital rights and other applicable provisions on the matter.
- The exhaustive analysis of the reported facts to ensure the veracity of the possible breach.
- The presumption of innocence and respect for the rights of the persons allegedly involved.
- Rigour in the actions that are undertaken as a consequence of the communications received that must be substantiated and justified.
- Good faith. Anyone who makes a complaint must do so in accordance with an inalienable principle in good faith, with sufficient reasons and objective evidence to demonstrate the existence of the breach.

The following means have been established to formulate anonymous or confidential complaints:

- An internal web application: both internal and external personnel who have access to the Intranet shall have access to the complaints channel application, which will provide them with a unique random number given to the complaint and a password known only to the complainant.
- Email: for those cases in which the complainant does not have access to the Intranet, or does not want to make use of the complaint channel application, an email is made available through which the complaints shall be received: canaldenuncia@abanca.com

On the other hand, to guarantee that the Whistleblowing Channel can operate effectively, and ensure its correct execution, review, supervision and updating, control bodies are required to provide adequate support. The following have therefore been established:

- Group Audit and Compliance Committee: responsible for supervising the proper operation of the Whistleblowing Channel.
- Ethics Committee: decides on the matter investigated, approving or ratifying the sanctions to be applied according to the Company's disciplinary system.
- Human Capital: is responsible for monitoring and executing, whenever necessary, the disciplinary measures adopted by the Ethics Committee.
- Internal Audit: as manager of the Complaints Channel, it is responsible for managing the complaints received, and issuing reports on the matters that must be investigated.
  In addition:

- Those matters in which any criminal liability may arise shall be submitted to the competent bodies in the area of criminal risk prevention.
- Complaints regarding potential breaches of the current regulations on the Prevention of Money Laundering and Terrorism Financing committed internally by employees, managers, or agents shall be submitted to the Internal Control Body, through the Technical Unit for the Prevention of Money Laundering.
- Complaints regarding potential or effective infringements in the field of market abuse and other breaches of Securities Market regulations shall be submitted to the Internal Control Body, through the Department of Conduct of the Stock Market.
- The Data Protection Officer shall be informed regarding data protection security breaches or privacy issues deemed relevant,
- An annual report on its operation shall be reported to the Audit and Compliance Committee.

- **Regular training and updating programmes for the personnel involved in the preparation and review of financial information, as well as in the evaluation of the SCIIF, covering at least accounting standards, auditing, internal control and risk management.**

- The Entity's objective is that the personnel involved in the different processes related to the preparation of financial information receive training actions and knowledge updates, specifically designed to facilitate the proper development of their functions. To this end, the Entity seeks to provide a Training Plan in accounting and financial matters adapted to each of the positions and responsibilities of the personnel involved in the preparation and review of financial information.

- As has been the case in previous financial years, a training plan for the personnel involved in the different processes related to the preparation of financial information was established in the 2019 financial year, in order to complete what was undertaken in previous years in accounting and financial matters, and has been adapted to each of the positions of these personnel. With the 2019 training plan for the General Intervention and Accounting Directorate, 34 training actions with a total of 722.75 hours, which represents 26.76 teaching hours per person, have been undertaken. Three of these training actions have dealt with topics specifically related to accounting standards, auditing, internal control and risk management, with 50 participants. The training carried out in Company valuation analysis, Comprehensive Risk Management and RAROC, as well as the Capital and Solvency and Financial Risks modules, should be highlighted.

F.2. Risk assessment of financial information

Report at least on:

F.2.1. What are the main characteristics of the risk identification process, including those of error or fraud, in terms of:

- Whether the process exists and is documented.

The Entity has a Policy for the identification of processes, relevant areas and risks associated with financial information, which includes those of error or fraud.

- **If the process covers all the objectives of the financial information (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), if it is updated and how often.**

The process of identifying risks and controls of activities and transactions that may materially affect the financial statements is completed annually, using the most recent financial information available as a basis.

However, when circumstances not previously identified that show possible errors in the financial information or substantial changes in the Group's operations become apparent during the year, the Entity evaluates the existence of risks that should be added to those already identified.

The criteria to be followed in identifying risks are as follows:

- The identification of risks shall be carried out fundamentally for the risks of error and fraud regarding the financial information that is reported to the markets.

- Its identification shall be carried out by the respective Directorate General, together with the help of the areas responsible for the selected processes under review.

- Risks of error to be identified shall be those that affect the consolidated financial information of the Grupo Abanca Corporación Bancaria S.A.

- The process is aimed at identifying risks of material error.

In any case, the risks shall refer to possible errors (intentional or not) in the framework of the objectives of financial reporting: (i) existence and occurrence; (ii) integrity; (iii) valuation; (iv) presentation; (v) and rights and obligations.

Similarly, the degree to which these objectives affect each heading of the Financial Statements may be: low, medium or high.

- **The existence of a process to identify the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, instrumental entities or special purpose entities.**

The Entity has a Consolidation Procedure detailing the monthly review activity of the consolidation perimeter carried out by the Group and Branch Control and Consolidation Department, belonging to the General Audit and Accounting Department. Through this procedure, the Entity ensures that the variations that occur in the perimeter, in the different periods of generation of financial information, are correctly included in the Group's consolidated financial statements.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The effect of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) shall be considered in the identification of risks of error in financial information.

- **Which governing body of the entity supervises the process.**

The Policy for the identification of processes, relevant areas and risks associated with financial information establishes that the execution of the procedure for identifying risks and controls is the responsibility of the appropriate Directorates-General and the responsibility for supervising the process is the responsibility of the Audit and Compliance Committee through the Internal Audit function, as well as the General Audit and Accounting Directorate.

F.3 Control activities

Report, indicating its main characteristics, if it at least has:

F.3.1. Procedures for reviewing and authorizing financial information and the description of the SCIIF, to be published in the securities markets, indicating those responsible, as well as descriptive documentation of the flows of activities and controls (including those related to the risk of fraud) of the different types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of the relevant judgements, estimates, valuations and projections.

The Entity has a procedure for reviewing and authorizing financial information that is sent to the markets with the periodicity set by the regulations and that is prepared by the General Directorate of Finance, or from the relevant General Directorates at the request of the former. The supervision function is assigned to the General Audit and Accounting Directorate and the Internal Audit Area.

Within the General Directorate of Finance, the Accounting and Accounting Control department is responsible for the accounting records arising from the different transactions that take place in the Entity and those that carry out the main control activities listed in section F.2.1 above, including the accounting Closing procedure and the review of the relevant Judgements and Estimates, based on the materiality thresholds defined. Similarly, these areas are responsible for preparing, in general, the Entity's financial information on the existing accounting basis, having defined and implemented, in the aforementioned preparation process, additional control procedures that guarantee the quality of the information and its reasonableness for subsequent presentation to Senior Management.

In the processes of preparing this information, the General Directorate of Finance or, where appropriate, the Directorate of General Intervention and Accounting, requests the collaboration of the other General Directorates and/or Areas responsible for obtaining certain additional information, the breakdown of which is required in periodic financial reports. Similarly, and once the information preparation process is completed, the aforementioned managers are requested to review and authorize the information for which they are responsible, prior to publication.

The Audit and Compliance Committee also intervenes in the review process, informing the Board of Directors of its conclusions on the financial information presented by the General Audit and Accounting Directorate. Ultimately, the Board of Directors approves the financial information that the Entity must periodically make public. These functions are included in the Regulations of the Board of Directors. Its implementation is formalized through the minutes of the different meetings.

Regarding the description of the SCIIF, this is reviewed both by the General Audit and Accounting Directorate, as well as by the Internal Audit, as well as by the Governing Bodies mentioned above, as part of the periodic information that the Entity sends to the markets.

Regarding activities and controls directly related to transactions that may materially affect the financial statements, the Entity has a GRC tool that optimizes the supervision and testing of the procedures and risk matrices and controls of the significant processes that affect the generation, preparation and preparation of financial information.

The significant processes (distinguishing between business and cross-cutting processes) associated with the Entity's financial areas for which the aforementioned documentation is available are detailed below:
Specific business processes associated with the relevant areas (epigraphs of the Financial Statements) would be the following:

1. Loans/Credits and Guarantees
2. Wholesale/Unionized
3. Insolvency funds
4. Debt Securities and Other Capital Instruments
5. Hedging and trading derivatives (Assets and Liabilities)
6. Foreclosed assets
7. Debt marketable securities
8. Investments
9. Tax assets and liabilities/Corporation tax
10. Demand accounts and term accounts

Cross-cutting processes that affect all areas as a whole:

1. Balance sheet
2. Consolidation
3. Judgements and estimates
4. General computer controls

The aforementioned tool considers:

- The description of the activities related to the process, indicating the particularities that a specific product or operation may contain.

- The identification of the relevant risks for which the areas involved in the process identify the main risks on financial information related to the process with a material impact on the Entity's financial statements.

- The identification of the controls and their description in relation to the relevant risks previously identified. Similarly, the evidences supporting the existence of each identified control are attached.

The General Directorate of Finance, with the information obtained from the different areas of the Entity, is responsible for the judgements, estimates, projections, accounting policies and critical hypotheses of the Entity, and is the ultimate responsibility of the Board of Directors to approve them in the yearly accounts. The main estimates identified by the Entity are as follows; useful life of tangible and intangible assets, valuation of certain financial assets, fair value of certain non-financial assets, corporation tax, integrity/accuracy of the consolidation perimeter, provisions for future contingencies and Impairment losses of certain financial assets.

F.3.2. Policies and procedures for internal control over information systems (amongst others, on access security, change control, their operation, operational continuity and segregation of duties) that support the entity's relevant processes in relation to the preparation and publication of financial information.

The Entity has a General Computer Controls Process with its respective risk and control matrix detailing the risks and controls relating to access security, change control, their operation, operational continuity and segregation of duties.
Additionally, the information systems that support the processes on which the Entity's financial information is based are subject to internal control policies and procedures to guarantee the integrity of the preparation and publication of financial information.

Specifically, policies have been established in relation to:

- Access security: the applicable regulations regarding the control of logical access to ABANCA's information systems (applications, databases, communication devices and information processing resources), establishing the necessary requirements for access control to the systems and the measures to guarantee the protection of the information subject to processing. There are also specific procedures for the different activities within the scope of identity and access management. These procedures shall cover all stages of the life cycle of user access, from user registration to the modification of authorizations and removal of users in the systems.

  Control of access to resources and the identification and authentication of users are fundamental control objectives. The information must be protected by controls that reduce the risk of abuse, loss, alteration, destruction and unauthorized processing or access of the information processed in ABANCA, covering the aspects of:

  - Identification, authentication and user access management
  - Access privilege management
  - Password management
  - Database access control

- Operating system access control
- Network access control

- Business continuity: the Entity has a Technological Contingency Plan capable of facing disaster situations and guaranteeing the continuity of technological services. Strategies have been developed that allow the recovery of information systems in the shortest possible time. Similarly, it has specific Business Continuity Plans for the most priority business areas.

- Segregation of duties: the development and exploitation of financial information systems is carried out by a wide group of professionals with clearly differentiated and segregated roles:

    - The Entity's project managers carry out functional analyses, management of development projects, evolutionary and operational management and integration tests.

    - The development teams are made up of internal personnel and personnel from collaborating companies, who perform the functions of technological design, construction and testing, always under the development methodologies defined by the Entity.
    - The Systems Area is responsible for the exploitation of computer systems.

  Access to the operating environment by personnel outside the Systems area is authorized by the Planning area and is only valid for one day, with all activities carried out in the system being recorded.

- Change management: the management of changes and developments in the systems that support the Entity's financial information is carried out based on a formally defined and institutionalized methodology. The Entity is certified in CMMI (Capability Maturity Model Integration) at its level 5 (optimized), and development activities are formalized in the "CGDN +" tool, which allows the automation of processes, visibility of users and management on the development activities, the improvement of the predictability of the projects, as well as for results regarding the objectives to be quantifiable and predictable, enabling the decision making to correct possible defects detected and avoid their repetition.

- Incident management: the main objective of the policies and procedures established in this area is the resolution of incidents in the shortest possible time. The efficiency of incident management is achieved through adequate risk assessment, the prioritization and monitoring of incidents based on their criticality, the reduction of communication times and, finally, the determination of problems and identification of improvement proposals. The monitoring of the evolution of incidents, as well as the necessary improvement plans, is controlled through the comprehensive management tool CGDN+.

F.3.3. Internal control policies and procedures aimed at supervising the management of activities subcontracted to third parties, as well as those aspects of evaluation, calculation or valuation entrusted to independent experts, which may materially affect the financial statements.

The Bank has formalized a General Purchasing Policy that regulates the procedures for the acquisition of goods and services. The purchasing procedures establish the segregation of the functions of request, approval, contracting, supervision and payment for the services subcontracted to third parties. The subcontracting of any activity is always supported by a service provision contract between the Bank and the provider, where the service stipulated is clearly specified.

Additionally, the Bank has established a Service Outsourcing Policy, the latest update of which was approved by the Board of Directors on May 28, 2018. We established a series of assessment criteria in this policy in order to analyze the justification and viability of the outsourcing; identifying, assessing, controlling and managing the inherent risks, and adopting the adequate measures that prevent or mitigate the risk exposure that could arise. In particular, this is when a service performance is delegated or the functions which are carried out are identified as critical.

The study of the justification of the subcontracting of services or functions, takes into consideration the following factors, amongst others: regulatory aspects that could condition subcontracting; impact of subcontracting on the entity's business; the operational convenience of the activity; its demonstrated need (in business, operational or regulatory terms), demonstrated inconvenience for the service to be provided by internal personnel and its economic rationale based on: cost-benefit analysis and prioritization of existing outsourcing capacity; the entity's ability and experience to effectively supervise outsourced functions and to adequately manage risks; business continuity plans, when necessary considering the criticality of the subcontracted function or service.

Meanwhile, the third-party selection and assessment shall be undertaken by attending to diverse factors which guarantee that the provider: holds the competency, capacity, experience and, if necessary, any authorization that the current applicable normative might require, in order to carry out the outsourced function or service in a reliable and professional way; that it complies with the most relevant laws and norms that apply; that it efficaciously carries out the outsourced function or service, while correctly supervising its progress, and that it disposes of adequately trained and experienced personnel, in order to carry out the outsourced service or function in compliance with the applicable regulations; that it communicates any event that could significantly affect the efficacious development of the function or service; that it cooperates with the supervising authority in everything that relates to the outsourced activities; that it adequately manages the associated risks, disposes of the appropriate protection measures for the entity’s confidential information and that of its customers, and it has, applies and maintains a contingency plan that enables it to maintain its activity and limits losses in the case of severe incidents in the business.

Amongst others, the Bank uses reports from independent experts on operational valuations that may potentially materially affect the financial statements. For the 2018 financial year, the activities entrusted to third parties related to valuations and calculations by independent experts have been related to: i) actuarial calculation studies, ii) legal and tax advisory services, iii) appraisals on foreclosed properties and on properties that act as collateral in the institution's credit operations and, iv) valuation of certain financial instruments, in accordance with the applicable accounting regulatory framework.
The independent expert evaluations used in matters relevant to the generation of financial information are included within the circuit of review procedures carried out by the control, internal audit and external audit areas.

F.4 Information and communication

Report, indicating its main characteristics, if it at least has:

F.4.1. A specific function tasked with defining, keeping accounting policies updated (accounting policy department or area) and resolving doubts or conflicts arising from their interpretation, maintaining fluid communication with those responsible for operations in the organization, as well as an accounting policy manual that is updated and distributed to the units through which the entity operates.

Since 1 January 2018, Circular 4/2017 has come into force on public and confidential financial reporting standards, and models of financial statements. The objective of the new circular is to adapt the accounting regime of Spanish credit institutions to changes in the European accounting system arising from the adoption of two new International Financial Reporting Standards (NIIF): NIIF 15 and NIIF 9. These have modified the criteria for accounting for ordinary income and financial instruments, respectively, the latter being of special importance for credit institutions.

The Accounting and Accounting Control Department, which reports to the Directorate of General Intervention and Accounting, is responsible for identifying and interpreting the changes that occur in accounting policies, as well as defining and solving doubts arising from the interpretation of the Bank’s accounting procedures.

The Entity has an Accounting Policies Manual that aims to establish the accounting principles that govern the activity of ABANCA Corporación Bancaria, S.A. and the companies that make up the Grupo ABANCA Corporación Bancaria in the preparation of its financial statements. This document is updated annually by the General Audit and Accounting Directorate and approved by the Comprehensive Risk committee

Additionally, and completing the previous manual, different documents are available that form an accounting circuit, explaining the details of all the possible events through which the contract or operation may pass and describing the main characteristics of administrative operations, tax regulations and the criteria and accounting standards applied. The documentation corresponding to these accounting circuits is stored by the Directorate of General Intervention and Accounting, and is regularly updated by the Accounting and Accounting Control area.

F.4.2. Mechanisms for the capture and preparation of financial information with homogeneous formats, for application and use by all the units of the entity or group, that support the main financial statements and notes, as well as the information detailed on the SCIIF.

The Bank's systems are fully integrated and the registry of operations automatically triggers their accounting, as well as updating inventories.

Regulatory reporting is undertaken through the "Pyramid" tool. This was designed with the aim of facilitating a dynamic tool, which would enable them to capture the data from the different Financial Statements in a simple and rapid manner, meeting the requirements of the Bank of Spain with regard to the structure of the Reports, magnetic support, data validation, etc. The main functionalities of "Pyramid" are the following:

- Financial Statements Explorer.

- Financial Statements Viewer.
- File Generator.
- File Importer.
- Square Editor.
- Databases.
- Automatic generation and sending of information, XBRL format, Bank of Spain format (BECA), internal format (VAR).
- Shipping control consultation.
- Possible errors and solutions.
- Generation of a Bank of Spain format file of corrections to a previously sent statement.
- Tables out of program.

In order to prepare the consolidated information, all the Group companies have the SAP tool. The capture and preparation of the Group's financial information is therefore performed in homogeneous formats.

F.5 System performance monitoring

Report, noting its main characteristics, at least of:

F.5.1. The SCIIF supervision activities performed by the Audit Committee as well as whether the entity has an internal audit function that has among its competences that of supporting the committee in its work of supervising the internal control system, including the SCIIF. Similarly, the scope of the evaluation of the SCIIF carried out in the financial year and the procedure by which the person in charge of executing the evaluation communicates its results, if the entity has an action plan detailing any corrective measures, and if its impact on financial information has been considered.

Article 5 of the Regulations of the Audit and Compliance Committee of Abanca Corporación Bancaria, S.A., establishes that the functions of the Audit and Compliance Committee, in relation to the internal information and control systems and the internal audit function, include:

- Checking the adequacy and integrity of internal control systems and reviewing the appointment and replacement of those responsible;
- Understanding and supervising the process of preparation and presentation and the integrity of the mandatory financial information related to the Company and, where appropriate, to its Group, reviewing compliance with regulatory requirements, the proper delimitation of the scope of consolidation and the correct application accounting criteria, presenting, where appropriate, recommendations or proposals to the Board, aimed at safeguarding its integrity;
- Supervising the effectiveness of the Company's internal control audit, and risk management systems, so that main risks are adequately identified, managed and disclosed, and discussing with the external auditor the significant weaknesses of the control system internal detected, where appropriate, in the development of the audit, all without violating its independence. To this end, and where appropriate, they may submit recommendations or proposals to the Board and the respective deadline for their follow-up;
- Supervising and ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and removal of the Auditor

General; proposing the Internal Audit Statute, proposing the orientation and annual work plan of the internal audit function, ensuring that its activity is focused mainly on the Company's relevant risks; proposing the budget and resource plan of the internal audit function, after evaluating the scope and resources of the function; receiving periodic information on its activities and on incidents that occur in its development; and verifying that senior management takes into account the conclusions and recommendations of their reports. On the other hand, the Auditor General shall have full access to the Audit and Compliance Committee, through its chairperson;
- Establishing and supervising a mechanism that allows employees to communicate, in a confidential manner, potential irregularities, especially financial and accounting, that are noticed within the company; and
- Reviewing the Company's accounts, monitoring compliance with legal requirements and the correct application of generally accepted accounting principles, as well as report proposals for modification of accounting principles and criteria suggested by management.

The Purpose and Mission of this unit are detailed within the Entity's Internal Audit Statute, approved by the Board of Directors:

- The purpose of the Internal Audit Department of ABANCA is to provide independent and objective assurance and consulting services designed to add value and improve the entity's operations. The mission of the internal audit is to enhance and protect the value of the organization by providing risk-based assurance, advice and analysis. The Internal Audit Department helps the entity meet its objectives by providing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

The same audit statute defines that the Internal Audit evaluations include verifying that:

- The risks related to the achievement of the entity's strategic objectives are adequately identified and managed.
- The actions of the members of the entity comply with the policies, regulations and procedures of ABANCA.
- The results of operations or programmes are consistent with the established aims and objectives.
- Operations or programmes are being carried out effectively and efficiently.
- The risk of fraud and the possibility of its occurrence is properly managed by the entity.
- The established processes and systems allow compliance with the policies, procedures, laws and regulations that could significantly affect the entity.
- The information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and adequately protected.

The Internal Audit function is authorized, with full autonomy, and independence in its actions, to have access to all the relevant information for the performance of its responsibilities.

Every year, the Internal Audit Department submits the activities plan for the year to the Audit and Compliance Committee for approval, periodically informing as to the degree of execution.

The committee may also, at any time, request from Internal Audit the performance of work not contemplated in the Plan.

At the meetings of the committee, Internal Audit reports the results of its work, and the monitoring of its requirements and recommendations, and may propose to the committee such additional actions as it deems appropriate.

F.5.2. If it has a discussion procedure by which the statutory auditor (in accordance with the provisions of the Technical Auditing Standards), the internal audit function and other experts can communicate to senior management and the Audit Committee or managers the entity's significant internal control weaknesses identified during the annual accounts review processes or those that have been entrusted to them. Similarly, it shall inform if it has an action plan that tries to correct or mitigate the observed weaknesses.

Article 12 of the Regulations of the Audit and Compliance Committee stipulates that, for the proper functioning of its operations, the Audit Committee, through its chairperson (notwithstanding the involvement of other members of the Committee), shall establish an effective communication channel and periodically with the main auditor responsible for the audit of accounts as defined by the LAC (where appropriate, the auditor or auditors of accounts designated by the respective audit firm as the main responsible party for the audit work).

Moreover, article 2, in its section 2.4, establishes as one of the roles of the committee "to serve as a communication channel between the Board of Directors and the external auditors, to evaluate the results of each audit and the management team's responses to the external auditor's recommendations and mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable in the preparation of the financial statements. Similarly, the Commission shall verify that senior management takes into account the recommendations of the external auditor; and in section 2.6, "ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and on the evolution of the Company's accounting and risk situation".

Internal Auditing shall collaborate with the supervisory bodies in all their tasks, and shall provide all information requested.

F.6 Other relevant information

F.7 External auditor's report

Report of:

F.7.1. If the SCIIF information submitted to the markets has been submitted for review by the external auditor, in which case the entity should include the respective report as an Annex. If not, it should report its reasons.

Article 540 of the Capital Company Act (whose consolidated text was approved by the Royal Legislative Decree 1/2010, of 2 July) regarding the dissemination and contents of the Annual Corporate Governance Report, has not established the obligation to obtain from the annual accounts auditor a review report on the description of the SCIIF.

It has not been considered necessary to request the respective report from the auditor for its review.

Next, in application of the Corporate Governance Excellence Plan approved by the Board of Directors and as good practice, the degree of compliance with the recommendations of the Code of Good Governance of listed companies shall be voluntarily indicated, since ABANCA Corporación Bancaria, S.A. is not a listed company.

DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

1. The bylaws of listed companies do not limit the maximum number of votes that a single shareholder can cast, nor do they contain other restrictions that make it difficult to take control of the company by acquiring its shares on the market.

   Meets requirements.

2. That when the parent company and a subsidiary company are listed both define publicly and precisely:

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary company with the other companies in the group.

   b) The mechanisms established to resolve any conflicts of interest that may arise.

   N/A.

3. During the ordinary general meeting, as a complement to the written dissemination of the annual corporate governance report, the chairperson of the board of directors verbally informs the shareholders, in sufficient detail, of the most relevant aspects of the corporate governance of the company, and in particular:

   a) Of the changes that have occurred since the previous ordinary general meeting.

   c) Of the specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, if they exist, of the alternative rules that apply in this matter.

   Given that ABANCA Corporación Bancaria, S.A. is a non-listed company, this recommendation does not apply to it, notwithstanding the information that on corporate governance is transferred to the General Meeting and which the Chairperson of the Board of Directors regularly provides to the Bank's Governing Bodies when their sessions are held.

4. The company defines and promotes a policy of communication and contacts with shareholders, institutional investors and voting advisers that is fully respectful of the rules against market abuse and treats shareholders who are in the same position in a similar manner.

The company makes this policy public through its website, including information regarding the way in which it has been put into practice and identifying the interlocutors or those responsible its execution.

ABANCA Corporación Bancaria, S.A. is not a listed company and therefore this recommendation does not apply to it. However, ABANCA has established communication channels with its shareholders and investors, this being its corporate website and the Investor Relations department. In this regard, these communication channels at all times respect the rules against market abuse and advocate transparency and do not permit market manipulation, insider dealing and the illicit communication of non-public information. The Entity performs periodic sectoral benchmarks and expands the contents of the website with the aim of increasing its level of excellence.

5. **The board of directors does not submit to the general meeting a proposal for delegation of powers, to issue shares or convertible securities excluding the pre-emptive subscription right, for an amount greater than 20% of the capital at the time of the delegation.**

When the board of directors approves any issue of shares or convertible securities with the exclusion of the pre-emptive subscription right, the company immediately publishes on its website the reports on the exclusion to which the commercial legislation refers.

Meets requirements.

6. **Listed companies that prepare the reports listed below, either mandatorily or voluntarily, publish them on their website sufficiently in advance of the holding of the ordinary general meeting, although their dissemination is not mandatory:**

a) **Auditor independence report.**

b) **Operational reports of the audit and appointments and remuneration committees.**

c) **Report of the audit committee on related-party transactions.**

d) **Report on the corporate social responsibility policy.**

Meets requirements.

7. **The company transmits general shareholders' meetings live through its website.**

ABANCA Corporación Bancaria, S.A. s not a listed company, so this recommendation does not apply to it. However, given the lack of interest expressed by the free float, it is not considered necessary to broadcast the meetings live, notwithstanding the publication on the corporate website of all the items on the Agenda with the number of shares in favour and against each item on the Agenda, as well as the percentage of representation of those shares, the number of abstentions, number of blank votes and the percentage of valid vote on the total share capital.

8. The audit committee ensures that the board of directors seeks to submit the accounts to the general shareholders' meeting without limitations or qualifications in the audit report and, in the exceptional cases in which there are qualifications, both the chairperson of the audit committee and the auditors clearly explain to the shareholders the content and scope of such limitations or qualifications.

   Meets requirements.

9. The company permanently make public on its website the requirements and procedures that it will accept to prove the ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

   Such requirements and procedures favour the assistance and exercise of their rights to the shareholders and are applied in a non-discriminatory manner.

   Meets requirements.

   As it is not a listed company, ABANCA it is not subject to this recommendation. However, these aspects are included in the notice for each Meeting and in the attendance card that is sent as hard copy to all shareholders.

10. When any legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new proposed resolutions, the company:

a) Immediately disseminates such complementary points and new agreement proposals.

b) Makes the attendance card model or proxy form for voting or remote voting with the necessary modifications public so that the new items on the agenda and alternative proposals can be voted on in accordance with the same terms as those proposed by the board of directors.

c) Submits all those points or alternative proposals to a vote and apply the same voting rules as those formulated by the board of directors, including, in particular, presumptions or deductions about the outcome of the vote.

d) After the shareholders general meeting, the breakdown of the vote is notified concerning such complementary points or alternative proposals.

   Meets requirements.

11. In the event that the company plans to pay attendance bonuses to the general shareholders' meeting, it establishes, in advance, a general policy on such bonuses and the policy is stable.

   N/A.

12. The board of directors undertakes its functions with unity of purpose and independence of judgement, provides the same treatment for all shareholders who are in the same position and is guided by the corporate interest, understood as the achievement of a profitable and sustainable business in the long term, which promotes its continuity and the maximization of the economic value of the company.

    In the pursuit of social interest, in addition to respecting laws and regulations and behaviour based on good faith, ethics and respect for usage and commonly accepted good practices, it seeks to reconcile its own social interest with, as appropriate, the legitimate interests of its employees, suppliers, customers and those of the other stakeholders that may be affected, as well as the impact of the company's activities on the community as a whole and on the environment.

    Meets requirements.

13. The board of directors is of the necessary size to achieve an effective and participatory operation, which makes it advisable to have between five and fifteen members.

    Meets requirements.

14. The board of directors approves a policy for selecting directors that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the needs of the board of directors.

c) Promotes diversity of knowledge, experiences and gender.

The result of the prior analysis of the needs of the board of directors is included in the supporting report of the appointments committee that is published when calling the general shareholders' meeting to which the ratification, appointment or re-election of each director is subject.

The director selection policy promotes the objective for the number of female directors to represent in 2020 at least 30% of the total members of the board of directors.

The appointment committee shall verify compliance with the director selection policy annually and report on it in the annual corporate governance report.

Meets requirements.

15. Proprietary and independent directors constitute a large majority of the board of directors and the number of executive directors is the minimum necessary, taking into account the complexity of the corporate group and the percentage of participation of the executive directors in the company capital.

    Meets requirements.

16. The percentage of proprietary directors over the total of non-executive directors is not greater than the proportion existing between the capital of the company represented by those directors and the rest of the capital.

    This criterion may be relaxed:

a) In large capitalization companies in which there are few shareholdings that are legally considered significant.

b) In the case of companies in which there are a plurality of shareholders represented on the board of directors and have no links to each other.

   Meets requirements.

17. The number of independent directors represents at least half of the total number of directors.

    However, when the company is not highly capitalized or when, even if it is, it has a shareholder or several acting in concert, who control more than 30% of the share capital, the number of independent directors represents at least a third of the total of directors.

    Meets requirements.

    Although ABANCA has a controlling shareholder that holds a 77.76% of the share capital, and therefore recommendation 17 would be met, maintaining a third of independent directors, in the application of its wish to apply the best practices of Corporate Governance, it maintains a majority proportion of independent directors, with the proportion of proprietary director currently being 1 out of 9.

18. The companies make the following information about their directors public through their website, and keep it updated:

a) Professional and biographical profile.

b) Other boards of directors to which they belong, whether or not they are listed companies, as well as other remunerated activities performed, whatever their nature.

c) Indication of the category of director to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or with whom they have ties.

d) Date of his first appointment as director in the company, as well as subsequent re-elections.

e) Shares of the company, and options on them, of which they are holders.

   ABANCA is not a listed company and therefore this recommendation does not apply to it. However, the Entity disseminates information about its directors on the corporate website in accordance with Circular 2/2016 of the Bank of Spain, as well as the member in the

Annual Accounts report, and as an integral part of it in the Annual Corporate Governance Report.

19. The annual corporate governance report, after verification by the appointments committee, explains the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is less than 3% of capital are explained; and the reasons set out as to why, where appropriate, formal requests for presence on the board from shareholders whose shareholding is equal to or greater than that of others at whose request proprietary directors have been appointed have not been addressed.

    Meets requirements.

20. The proprietary directors submit their resignation when the shareholder they represent fully transfers their shareholding. They should also do so, in their respective numbers, when the aforementioned shareholder reduces their shareholding to a level that requires the reduction of the number of their proprietary directors.

    Meets requirements.

21. The board of directors does not propose the separation of any independent director before the expiration of the statutory period for which he or she has been appointed, except when there is just cause, as assessed by the board of directors following a report from the appointments committee. In particular, it will be understood that there is just cause when the director moves to new positions or contracts new obligations that prevent him/her from dedicating the necessary time to the performance of the duties of the director, fails to perform the duties inherent to his/her position or is involved in some of the circumstances causing his/her independent status to be lost, in accordance with the provisions of applicable law.

    The separation of independent directors may also be proposed as a consequence of takeover bids, mergers or other similar corporate operations that imply a change in the capital structure of the company, when such changes in the structure of the board of directors are favoured by the criteria of proportionality indicated in recommendation 16.

    Meets requirements.

22. Companies establish rules that oblige directors to report and, where appropriate, resign in cases that may harm the credit and reputation of the company and, in particular, require them to inform the board of directors of criminal cases in those that appear as defendants, as well as their subsequent procedural vicissitudes.

    If a director is prosecuted or an order is opened against him/her for any of the crimes indicated in the company legislation, the board of directors examines the case as soon as possible and, in view of its specific circumstances, decides whether or not the director should continue in office. The board of directors should account for all of this, in a reasoned manner, in the annual corporate governance report.

    Meets requirements.

23. All directors clearly express their opposition when they consider that any proposal for a decision submitted to the board of directors may be contrary to the corporate interest. The same should be done especially by the independent directors and other directors who are not affected by the potential conflict of interest, concerning decisions that may harm shareholders not represented on the board of directors.

    When the board of directors adopts significant or repeated decisions regarding which the director has made serious reservations, the director draws the appropriate conclusions and, if he/she chooses to resign, explains the reasons in the letter referred to in the following recommendation.

    This recommendation also applies to the secretary of the board of directors, even if he/she does not have the status of director.

    Meets requirements.

24. When, whether by resignation or for any other reason, a director ceases to be in office before the end of his/her term, he explains the reasons in a letter that shall be sent to all members of the board of directors. Notwithstanding the fact that the removal is reported as a relevant fact, the reason for the removal is stated in the annual corporate governance report.

    Meets requirements.

25. The appointments committee ensures that non-executive directors have sufficient time available for the proper performance of their duties.

    The board regulations establish the maximum number of company boards of which its directors can be members.

    Meets requirements.

    The limitation of positions is stipulated in the Policy for the Selection and Continuous Evaluation of the Conditions of Suitability and Qualification of Directors approved by the Board of Directors, which regulates in its point Four.3 the limitation of positions in accordance with the provisions of the LOSSEC. Similarly, the Regulations of the Board of Directors refer in its article 18.4 to the applicable regulations regarding, among other issues, the ability to dedicate enough time to perform the corresponding functions.

26. The board of directors meets as often as necessary to effectively carry out its functions and, at least, eight times a year, following the schedule of dates and matters established at the beginning of the year. Each director is able to individually propose other points on the agenda not stipulated initially.

    Meets requirements.

27. The absences of the directors are reduced to the essential cases and quantified in the annual corporate governance report. When they must occur, representation is granted with instructions.

    Meets requirements.

28. When the directors or the secretary express concern about a proposal or, in the case of the directors, about the progress of the company and such concerns are not resolved by the board of directors, at the request of the person who expressed them, this is recorded in the minutes.

    Meets requirements.

29. The company establishes the appropriate channels so that the directors can obtain the precise advice for the performing of their functions, including, if circumstances so require, external advice charged to the company.

    Meets requirements.

30. Regardless of the knowledge required of directors for the exercise of their functions, companies also offer directors knowledge update programmes when circumstances so warrant.

    Meets requirements.

31. The agenda of the sessions clearly indicate those points on which the board of directors must adopt a decision or agreement in order that the directors can study or obtain, in advance, the information required for their adoption.

    When, exceptionally, for reasons of urgency, the chairperson wishes to submit to the approval of the board of directors decisions or agreements that do not appear on the agenda, the prior and express consent of the majority of the directors present shall be required, with due record being noted in the minutes.

    Meets requirements.

32. The directors are periodically informed of the movements in the shareholders and of the opinion that the significant shareholders, investors and rating agencies have about the company and its group.

    Meets requirements.

33. The chairperson, as responsible for the effective operation of the board of directors, in addition to exercising the functions that are legally and statutorily attributed, prepare and submit to the board of directors a schedule of dates and matters to be discussed; organize and coordinate the periodic evaluation of the board, as well as, where appropriate, that of the company's chief executive; are responsible for the direction of the Board and the effectiveness of its operation; ensure that sufficient discussion time is devoted to strategic issues, and agree and review the knowledge update programmes for each director, when circumstances warrant.

    Meets requirements.

34. When there is a coordinating director, the statutes or the regulations of the board of directors, in addition to the powers which he/she legally exercises, confers upon him/her

the following: chairing the board of directors in the absence of the chairperson and deputy chairpersons, if any; echoing the concerns of non-executive directors; maintaining contacts with investors and shareholders in order to ascertain their points of view in order to form an opinion on their concerns, particularly in relation to the corporate governance of the company; and coordinating the chairperson's succession plan.

N/A.

35. The secretary of the board of directors takes special care to ensure that in its actions and decisions, the board of directors takes into account the recommendations on good governance contained in this Code of Good Governance that are applicable to the company.

Meets requirements.

36. The full board of directors evaluate once a year and adopt, where appropriate, an action plan that corrects the deficiencies detected regarding:

a) The quality and efficiency of the operation of the board of directors.

b) The operation and composition of its committees.

c) Diversity in the composition and powers of the board of directors.

d) The performance of the chairperson of the board of directors and the chief executive of the company.

e) The performance and contribution of each director, paying special attention to those responsible for the different board committees.

In order to carry out the evaluation of the different committees and the board of directors, the report that the committees submit to the board of directors shall be based on the report from the appointments committee.

Every three years, the board of directors shall be assisted in carrying out the evaluation by an external consultant, whose independence shall be verified by the appointments committee.

The business relationships that the consultant or any company in its group maintain with the company or any company in its group must be disclosed in the annual corporate governance report.

The process and the areas evaluated shall be described in the annual corporate governance report.

Meets requirements.

37. When there is an executive committee, the participation structure of the different categories of directors is similar to that of the board of directors and its secretary is that of the latter.

    N/A.

38. The board of directors is always aware of the matters discussed and the decisions adopted by the executive committee and all members of the board of directors receive a copy of the minutes of the sessions of the executive committee.

    N/A.

39. The members of the audit committee, and especially its chairperson, are appointed on the basis of their knowledge and experience in accounting, auditing or risk management, and the majority of those members are independent directors.

    Meets requirements.

40. Under the supervision of the audit committee, there is a unit that assumes the internal audit function that ensures the proper functioning of the information and internal control systems and functionally reports to the non-executive chairperson of the board or of the audit committee.

    Meets requirements.

41. The head of the unit that assumes the internal audit function submits the annual work plan to the audit committee, reports directly on incidents that occur in its development and submits an activity report at the end of each financial year.

    Meets requirements.

42. In addition to those stipulated by law, the following functions correspond to the audit committee:

1. In relation to information systems and internal control:

a) Supervise the preparation process and the integrity of the financial information related to the company and, where appropriate, to the group, reviewing compliance with regulatory requirements, the proper delimitation of the consolidation perimeter and the correct application of accounting criteria.

b) Ensure the independence of the unit that assumes the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the budget for that service; approve the orientation and its work plans, ensuring that its activity is focused mainly on the relevant risks of the company; receive periodic information about their activities; and verify that senior management takes into account the conclusions and recommendations of their reports.

c) Establish and supervise a mechanism that allows employees to communicate, confidentially and, if possible and considered appropriate, anonymously, the irregularities of potential significance, especially financial and accounting, that they notice within the company.

2. In relation to the external auditor:

a) In the event of resignation of the external auditor, examine the circumstances that would have motivated this.

b) Ensure that the remuneration of the external auditor for his/her work does not compromise his/her quality or independence.

c) Supervise that the company communicates as a relevant fact to the CNMV the change of auditor and accompany this with a statement on the possible existence of disagreements with the outgoing auditor and, if any, their content.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to inform it about the work undertaken and the evolution of the accounting and risk situation of the Company.

e) Ensure that the company and the external auditor respect the current regulations on the provision of services other than auditing, the limits to the concentration of the auditor's business and, in general, the other regulations on the independence of the auditors.

Meets requirements.

43. The audit committee may convene any employee or manager of the company, and even order that they appear without the presence of any other manager.

Meets requirements.

44. The audit committee is informed about the structural and corporate modification operations that the company plans to carry out for its analysis and prior report to the board of directors on its economic conditions and its accounting impact and, especially, where appropriate, on the equation of proposed exchange.

Meets requirements.

45. The risk control and management policy identifies at least:

a) The different types of risks, financial and non-financial (amongst others operational, technological, legal, social, environmental, political and reputational) faced by the company, including financial or economic risks, contingent liabilities and other risks out of balance.

b) The setting of the level of risk that the company considers acceptable.

c) The measures envisaged to mitigate the impact of the risks identified, should they materialize.

d) The internal control and information systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off-balance sheet risks.

Meets requirements.

46. Under the direct supervision of the audit committee or, where appropriate, a specialized committee of the board of directors, there is an internal risk control and management function exercised by an internal unit or department of the company that has expressly the following functions:

a) Ensure the proper functioning of risk control and management systems and, in particular, that all significant risks affecting the company are identified, managed, and adequately quantified.

b) Actively participate in the elaboration of the risk strategy and in the important decisions about its management.

c) Ensure that risk control and management systems adequately mitigate risks within the framework of the policy defined by the board of directors.

Meets requirements.

47. The members of the appointments and remuneration committee - or of the appointments committee and the remuneration committee, if they are separate - are appointed by ensuring that they have the knowledge, skills and experience appropriate to the functions they are called to perform and the majority of such members are independent directors.

Meets requirements.

48. Large capitalization companies have an appointments committee and a separate remuneration committee.

Meets requirements.

49. The appointments committee consults the chairperson of the board of directors and the chief executive of the company, especially when dealing with matters relating to executive directors.

Any director may request the appointments committee to take into consideration, in case he/she finds them suitable in his/her opinion, potential candidates to fill director vacancies.

Meets requirements.

50. The remuneration committee exercises its functions independently and that, in addition to the functions attributed to it by law, the following correspond to it:

a) Propose to the board of directors the basic conditions of the contracts of senior managers.

b) Check the observance of the remuneration policy established by the company.

c) Periodically review the remuneration policy applied to directors and senior managers, including the share remuneration systems and their application, as well as guarantee that their individual remuneration is proportionate to that paid to the other directors and senior managers of the company.

d) Ensure that eventual conflicts of interest do not harm the independence of the external advice stipulated to the committee.

e) Verify the information on remuneration of directors and senior managers contained in the various corporate documents, including the annual report on director remuneration.

Meets requirements.

51. The remuneration committee consults the chairperson and the chief executive of the company, especially when dealing with matters relating to executive directors and senior managers.

Meets requirements.

52. The rules of composition and operation of the supervisory and control committees appear in the regulations of the board of directors and are consistent with those applicable to legally binding committees in accordance with the above recommendations, including:

a) They comprise exclusively non-executive directors, with a majority of independent directors.

b) Their chairpersons are independent directors.

c) The board of directors appoint the members of these committees by taking into account the knowledge, skills and experience of the directors and the tasks of each committee, deliberate on their proposals and reports; and are accountable, at the first plenary session of the board of directors after its meetings, for its activity and for work undertaken.

d) The committees may seek external advice when they consider this necessary for the performance of their functions.

e) Minutes of their meetings are drawn up and made available to all independent directors.

Meets requirements.

53. Supervision of compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy is attributed to one committee or is distributed amongst several committees of the board of directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if it exists, or a specialized committee that the board of directors, in exercise of its powers of self-

organization, decides to create for this purpose, to which the following minimum functions are specifically attributed:

a) Supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.

b) The supervision of the communication and relationship strategy with shareholders and investors, including small and medium shareholders.

c) The periodic evaluation of the adequacy of the company's corporate governance system, so that it fulfils its mission of promoting the corporate interest and takes into account, as appropriate, the legitimate interests of the remaining interest groups.

d) The revision of the corporate responsibility policy of the company, ensuring that it is aimed at creating value.

e) The monitoring of corporate social responsibility strategy and practices and the evaluation of their degree of compliance.

f) The supervision and evaluation of the relationship processes with the different stakeholders.

g) The evaluation of everything related to the non-financial risks of the company - including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordination of the reporting process for non-financial and diversity information, in accordance with applicable regulations and international reference standards.

Meets requirements.

54. The corporate social responsibility policy includes the principles or commitments that the company voluntarily assumes in its relationship with the different interest groups and identifies at least:

a) The objectives of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment and social issues.

c) Specific practices in matters related to: shareholders, employees, customers, suppliers, social issues, the environment, diversity, financial responsibility, respect for human rights and prevention of illegal conduct.

d) The methods or systems for monitoring the results of the application of the specific practices indicated in the previous section, the associated risks and their management.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels of communication, participation and dialogue with stakeholders.

g) **Responsible communication practices that prevent information manipulation and protect integrity and honour.**

Meets requirements.

In this context, ABANCA, in accordance with Law11/2018, of 28 December, incorporates the Non-Financial Information Statement in the 2019 ABANCA Corporate and Social Responsibility Report, verified by KPMG Asesores, S.L. according to ISAE 3000 standard and with the new wording given by Law 11/2018 to article 49 of the Commercial Code, which accompanies the Consolidated Annual Accounts corresponding to the 2019 financial year.

The guide has been used to calculate the key indicators of non-financial results included in this Non-Financial Information Statement GRI (Global Reporting Initiative), international reporting framework, and which is provided in the new article 49.6 e) of the Commercial Code introduced by the aforementioned law 11/2018.

55. **The company reports, in a separate document or in the management report, on matters related to corporate social responsibility, using for this purpose any of the internationally accepted methodologies.**

Meets requirements.

56. The remuneration of the directors is that necessary to attract and retain the directors of the desired profile and to remunerate the dedication, qualification and responsibility that the position requires, but not so high as to compromise the independence of criteria of the non-executive directors.

Meets requirements.

57. **Variable remuneration linked to company performance and personal performance, as well as remuneration through the delivery of shares, options or rights on shares or instruments referenced to the value of the share and long-term savings systems, such as pension plans, retirement systems or other social security systems, are limited to executive directors. The delivery of shares may be considered as remuneration to non-executive directors when it is conditional upon them holding them until they cease to be directors. The foregoing shall not apply to the shares that the director needs to dispose of, where appropriate, in order to satisfy the costs related to their acquisition.**

Meets requirements.

58. **In the case of variable remuneration, the remuneration policies incorporate the limits and technical precautions required to ensure that such remuneration is related to the professional performance of its beneficiaries and does not only arise from the general evolution of the markets or the company activity sector or other similar circumstances.**

In particular, the variable components of remuneration:

a) **Are linked to performance criteria that are predetermined and measurable and such criteria consider the risk assumed in order to obtain a result.**

b) Promote the sustainability of the company and include non-financial criteria that are adequate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its policies for risk control and management.

c) They are configured on the basis of a balance between the fulfilment of short, medium and long-term objectives, which allow remunerating performance for continued performance for a period of time sufficient to appreciate its contribution to the sustainable creation of value, in order that the elements of measurement of that performance do not revolve solely around specific, occasional or extraordinary events.

Meets requirements.

59. The payment of a relevant part of the variable components of the remuneration is deferred for a minimum period of time sufficient to verify that the previously established performance conditions have been met.

Meets requirements.

60. The remuneration related to the results of the company take into account the possible qualifications that appear in the external auditor's report and reduce those results.

Meets requirements.

61. A relevant percentage of the variable remuneration of executive directors is linked to the delivery of shares or financial instruments referenced to their value.

Meets requirements.

62. Once the shares or the options or rights over shares corresponding to the remuneration systems have been attributed, the directors cannot transfer the ownership of a number of shares equivalent to twice their annual fixed remuneration, nor can they exercise the options or rights until after a term of at least three years from its attribution.

The foregoing shall not apply to the shares that the director needs to dispose of, where appropriate, in order to satisfy the costs related to their acquisition.

ABANCA is not a listed company and, therefore, this recommendation is not applicable to it. Furthermore, it is also subject to the reinforced remuneration regime of significant credit institutions included in the Single Supervisory Mechanism of the European Central Bank. Notwithstanding the foregoing, the Bank includes the delivery of company shares as part of variable remuneration even though it is not a listed company.

63. The contractual agreements include a clause that allows the company to claim the reimbursement of the variable components of the remuneration when the payment has

not been adjusted to the performance conditions or when they have been paid based on data whose inaccuracy is subsequently proven.

Meets requirements.

64. The payments for termination of the contract do not exceed an established amount equivalent to two years of the total annual remuneration and are not paid until the company has been able to verify that the director has complied with the previously established performance criteria.

    Meets requirements.

This annual corporate governance report has been approved by the entity's board or administrative body, in its session dated 16/03/2020.

Indicate the directors or members of the administrative body who have voted against or abstained in relation to the approval of this Report.

ABANCA is not a listed company, although in application of the Corporate Governance Excellence Plan approved by the Board of Directors in July 2017, and as a best practice, the degree of compliance with the recommendations of the Code of Good Governance of listed companies has been voluntarily indicated.

The degree of total or partial follow-up of the recommendations that can be applied in ABANCA, even though it is not a listed company, amounts to 96.5%.

MEMORY on Corporate and Social Responsibility //ABANCA 2019

MEMORY on Corporate and Social Responsibility //ABANCA 2019

Presentation

ABANCA responsable

Corporate governance

Economic environment and strategic plan

Business model

Responsible professionals

Our commitments

Global risk management

Financial information

Annexes

ABOUT this memory

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For the purposes of this memory, the following names apply:

- **"ABANCA"** to the company ABANCA Corporación Bancaria, S.A.
- **"ABANCA Group"** to ABANCA Corporación Bancaria, S.A., and the set of companies that make up the ABANCA Corporación Bancaria Group, which may be consulted in the consolidated annual accounts of the Group.

Principles that govern it

This document offers detailed information in response to Law 11/2018, of 28 December, amending the Code of Commerce; the consolidated text of the Corporations Law, as approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Auditing, as regards non-financial information and diversity (hereinafter, Law 11/2018).

In this context, ABANCA includes the Consolidated Non-financial Information Statement in the ABANCA 2019 Corporate and Social Responsibility Memory, as indicated in the table "INDEX OF CONTENTS REQUIRED BY LAW 11/2018" included in this Memory.

The key indicators of non-financial results included in this Consolidated Non-Financial Information Statement have been drafted in accordance with the contents of current mercantile regulations and in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI), the international reporting framework contemplated by the aforementioned Law 11/2018, following the criteria of the GRI standards selected in accordance with that indicated for each matter in the aforementioned table. The information included in the Non-financial Information Statement, which is part of the Consolidated Management Report and which will accompany the Consolidated Annual Accounts corresponding to the 2019 financial year, is verified by KPMG Asesores S.L. as an independent provider of verification services, in accordance with the new wording given by Law 11/2018 to article 49 of the Code of Commerce.

Likewise, the other non-financial information contained in this Corporate and Social Responsibility Memory for the year ended 31 December 2019 has been prepared, in all significant respects, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards), in its exhaustive option, as detailed in point 102-54 of the "GRI content index" section of the Memory, and has also been reviewed by KPMG Asesores S.L.

Scope of the information

The financial information included in the Memory comes from the Consolidated Annual Accounts corresponding to the year ended 31 December 2019, together with the Management Report of that year, regarding the ABANCA Group.

The information regarding Human Capital from the year 2019 does not include the personnel of Sogevinus S.G.P.S., S.A.; Espacios Termolúdicos, S.A., and Natur Hotel SPA Allariz, S.A., which make up 4 % of the total workforce.

In the case of the information regarding the environment from the year 2019, the power consumption and emissions are reported corresponding to the offices of ABANCA in Spain and Portugal, and Banco Caixa Geral; therefore, ABANCA's consumption and emissions are not included in the other countries, from other financial investees and non-financial investees, which represents 7.8 % of the total workforce.

In cases in which the reported information has a different scope than as established, it will be specified in the corresponding section or table with a footnote.

presentation

ABANCA is an entity that dedicates little time to being satisfied with what it has achieved, and a lot of time pursuing new objectives.

102-14 **ABANCA** is an entity that dedicates little time to being satisfied with what it has achieved, and a lot of time pursuing new objectives. We are always looking towards the future. And we firmly believe that this future is not something that we can passively wait for. On the contrary, it is something that we can build ourselves with hope, work, and success.

This spirit of proactivity and trust has guided us through a particularly busy year of decisions and events. 2019 will go down in ABANCA's history as a financial year when we carry out multiple actions aimed at outlining the route we will travel on from now on.

Of all these actions, we would like to highlight three large blocks, chosen for how they represent us in terms of business and commitment to our environment.

First of all, in 2019 we incorporated the business coming from the acquisitions of Deutsche Bank PCB Portugal and Banco Caixa Geral, announced in 2018. These two operations have allowed us to strengthen our profile as an Iberian entity and to grow in segments of special interest, such as companies, private and personal banking, investment funds and insurance.

The second block of highlighted actions of the year refers to this last line of business. Banking-insurance activity is, due to its complementarity with the financial business, a fundamental element in our strategy of diversifying the sources of profitability. In 2019, we completed the process of taking control of and reorganising our insurance activity, internalising the management of the life and pension business. To this end, we created the first company in this 100 % Galician branch. On the other hand, we signed a stable alliance agreement with Crédit Agricole Assurances, the first European insurance bank, to operate long term in the general insurance market in Spain and Portugal.

All of these milestones and actions are examples of our identity as a financial institution: specialisation, innovation, internationalisation, customer focus, profitability and selective growth.

But ABANCA is more than that. We are an entity with objectives beyond the management of our business: we want to contribute to the transformation of the production model to make it more sustainable and respectful of the environment and people.

Guided by this belief, in 2019 we became one of 130 banks worldwide that, as founding signatories, adhered to the Principles for Responsible Banking within the framework of the United Nations General Assembly. Furthermore, we are part of the group of 31 entities that signed the Collective Commitment to Climate Action, by which we commit to align our strategy and financial activity to fight against climate change and promote a low-carbon economy.

These initiatives, along with our commitment to the Sustainable Development Goals and our own Code of Ethics and Conduct, constitute the general principles of our Sustainability Policy, which entered into force in 2019 and guides our actions in favour of a necessary balance between economic growth , respect for the environment and social welfare.

Juan Carlos Escotet Rodríguez
President of ABANCA

Francisco Botas Ratera
CEO of ABANCA

ABANCA

responsable

ABANCA's social responsibility is a commitment 365 days per year to encourage comprehensive and sustainable development of society and the planet.

OUR Contribution

102-7

Employees

5,788
employee.

€356.6 M
personnel expenses.

96.3 %
indefinite contracts excluding interim.

15.7 years
average seniority in the company.

€1.8 M
investment in training.

Clients

2.3 M
clients.

42.3 %
market quota deposits in Galicia.

> €85 BN
Turnover with clients.

Business

10.0 % *
ROE.

2.8 %
default rate.

€1,231 M
on CET1 capital requirements.

Society

€17.53 M
social investment 2019.

1.3 M
beneficiaries.

Suppliers

€215.59 M
in payment to providers.

1,244
approved suppliers.

96.1 %
Spanish suppliers.

ROE ex AT1 and distributed dividends.

The social responsibility strategy that ABANCA has developed since its creation focuses on good governance, equal opportunities, education, culture and the environment. Sustainability is considered a transversal framework for performance, maintaining the transparency and balance of this strategy and alignment with the business.

PERFORMANCE model

ABANCA is committed to aligning its business with the Sustainable Development Goals (SDGs) and the Paris Agreement, and the initiatives designed (such as the Principles for Responsible Banking) that firmly respond to the challenges posed by climate change and society, and thus taking an active role in creating a sustainable economy and leading in new ways of doing finance in the future.

In addition to the code of ethics and conduct, ABANCA's sustainability policy, which entered into force in 2019, aims to guide the entity's actions to contribute to being a high-performance organisation that achieves profitability in a sustained, responsible and innovative way, creating value, and analysing, preventing and mitigating the negative impacts that its decisions and activities have on the environment and society.

CONTRIBUTION to sustainable development

FS7, FS8, FS10, FS11

The United Nations Sustainable Development Goals are defined as one of the main tools to guide necessary strategic development in achieving a sustainable society.

The relationship that ABANCA has with each of the 17 SDGs and their goals has been studied, taking into account the entity's strategic plan and the analysis from the perspective of its stakeholders, business, organisation and current regulations.

The result is a comprehensive strategy of sustainable development, in which an initial prioritisation of a total of **4 + 4 direct action objectives** has been carried out due to its high impact and repercussion, which will affect our activities and projects in the economic, social and environmental sphere.

As a main premise, we at ABANCA assume that all the SDGs and goals are correlated, thus there will always be an impact and, therefore, a predisposition to act on each of them. Furthermore, the prioritisation and contribution to the objectives will be subject to updating in line with ABANCA's strategy and its corresponding activity.

Priorities
Direct impact due to the main activity of ABANCA

- Economic contribution
- Social contribution

Complementary
There is a degree of influence

Indirect
ABANCA acts indirectly

SDG 4: High-quality education

At Obra Social ABANCA, we promote a transformative education model based on innovation, internationalisation and multiculturalism, sustainability and good training practices,

- Instituto de Educación Superior Intercontinental de la Empresa (IESIDE).
- Regulated training.
- Unregulated training.
- Conferences, courses and symposiums.

This is complemented with the following internal initiatives by the company:

- Continuous training plan for directors.
- Regulatory training to employees.
- Internship programme in the company.

SDG 5: Gender equality

We ensure respect, the well-being of the workforce, their rights and opportunities regardless of gender, sexual orientation, nationality, ethnicity, religion, age or any other personal aspect.

- Equal opportunities plan.
- Composition and selection of the highest body of governance according to the criteria of gender diversity and inclusion.
- Collective agreement of ABANCA Corporación Bancaria, S.A.
- Protocol for cases of discrimination.
- Protocol to prevent gender violence.
- Code of ethics and conduct.

SDG 7: Affordable energy and without pollutants

We internally promote efficient consumption of energy, and we promote initiatives and actions that pursue that same objective on the part of our clients.

- Participation in projects of the National Integrated Energy and Climate Plan.
- Implementation of an energy management system.
- Energy efficiency and internal environmental plan.
- Photovoltaic energy installation in our data processing centre.
- We provide financing to companies for renewable energy projects or projects to improve energy efficiency.

SDG 8: Decent work and economic growth

We have a people management model that strives to guarantee well-being and attract, develop and involve the best talent, which allows us to provide the best and most complete service to clients, which is the main axis of ABANCA's activity.

- Variable and flexible remuneration system (REFLEX).
- Pension plans for employees.
- Excellence plan in corporate governance.
- Safety and health committee.
- Development plan for employees.
- Investment in a new model of offices and headquarters.
- Quality policy and service.
- Alpha Responsable and Alpha Future: socially responsible and megatrend investment fund portfolio management services.

SDG 9: Innovation and infrastructures

We internally promote the value of the initiative and the proposals for improvement, we try to keep up to date with new technologies taking advantage of all its features in order to best carry out our work and efficiently use it. In our institutional role, we promote initiatives that favour social innovation, the revitalisation of productive sectors and R&D&I.

- ABANCA Innova: intrapreneurship, acceleration, development of the Ithium project.
- Boosting of mobile banking and Digital ABANCA: they seek an omnichannel objective so that the client can be the one who chooses where and how to carry out their operations and contracts.
- Investment in sustainable facilities and equipment with new technologies.
- ABANCA Agro and ABANCA Mar: innovative sectoral financial solutions that seek to improve the facilities and infrastructure of its clients.

SDG 10: Reduction of inequalities

We work with the highest standards of demand regarding respect, which is embodied in financial inclusion, sectoral policies, protection of information and non-discrimination.

- We activate plan: agreement to finance initiatives focused on economic and social development.
- We support Reciprocal Guarantee Associations (RGA) for company financing.
- AENOR Certificate in excellence in service to private banking, businesses, payment methods and electronic banking.
- Financial Education Programme.
- We are the sole patron of Afundación.
- ABANCA has the "Unique housing management" unit, being the only channel for dialogue, negotiation and management between public administrations, citizens' mortgage platforms (CMP) and other associations.

SDG 12: Responsible production and consumption

We always maintain rationality in the consumption of resources and in the acquisition of products and services that respect the environment, as well as proper waste management. We transmit these principles to our clients, collaborators and suppliers, with whom we have a close and transparent relationship based on the values of reliability, experience, quality certification, connection and degree of concentration.

- Commercial communication policy.
- Investment in companies that produce renewable energy.
- Management of internal waste: Revertia and Artegalia.
- Zero paper programme.
- Promotion of the use of electronic correspondence.
- Creation of indirect employment through the contracting of local suppliers.

SDG 14: Underwater life

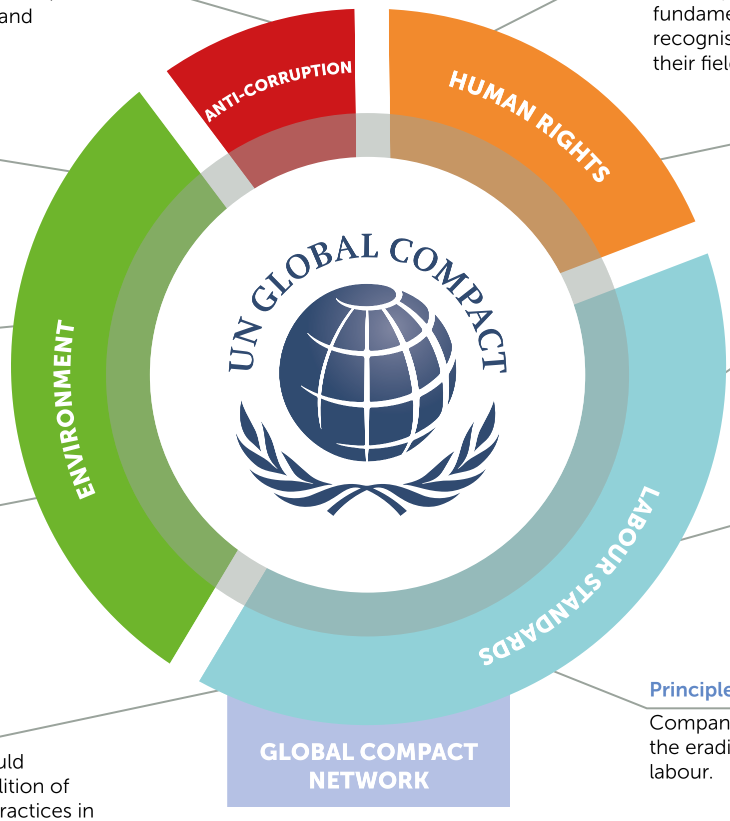
One of the axes of sustainable development is local action, where entities have a greater contribution, without forgetting that the impact of their actions and responsibility are global.

ABANCA has its greatest influence in the Atlantic area, where its DNA is. For this reason, we favour initiatives that promote adequate protection and conservation of the environment, especially the environment around us: the oceans and their underwater life.

- ABANCA Mar: financing lines for companies and their sustainable projects.
- Collaboration Convention with the Spanish Fishing Confederation (CEPESCA).
- Participation, institutional support to the fishing and canning section.
- Corporate volunterring programme: cleaning of coastal areas.

PRINCIPLES of the Global Compact

The commitment to the Spanish network of the Global Compact is mainly focused on involving companies and other bodies in sustainable development. ABANCA, as a member, incorporates the ten universal principles of the compact launched in the year 2000 into its activity and value chain.



Principle 1
Companies must support and respect the protection of fundamental human rights, recognised internationally, within their field of influence.

Principle 2
Companies must ensure that they are not complicit in the violation of human rights.

Principle 3
Companies must support free association and the effective recognition of the right to collective bargaining.

Principle 4
Companies must support the elimination of all kinds of forced labour or labour carried out under any coercion.

Principle 5
Companies must support the eradication of child labour.

Principle 6
Companies should support the abolition of discriminatory practices in employment and jobs.

Principle 7
Companies should maintain a preventive approach that favours the environment.

Principle 8
Companies should promote initiatives that promote greater environmental responsibility.

Principle 9
Companies can promote development and the dissemination of technologies that respect the environment.

Principle 10
Companies should work against corruption in all its forms, including extortion and bribery.

17 ALLIANCES TO ACHIEVE OBJECTIVES

ALLIANCES to achieve objectives

102-12, 201-2

Our relations with stakeholders are a key element of ABANCA's strategy and corporate culture, which proactively works in the growth and construction of its network of alliances to provide solutions, actions and forums that seek sustainable development and contribute to social and economic progress.

The main initiatives and alliances at the local and international level are:

1

Principles for Responsible Banking (PRB)

ABANCA, in 2019, became one of 130 banks worldwide that, as founding signatories, adhered to the Principles for Responsible Banking within the framework of the United Nations General Assembly.

ABANCA believes that, as expressed in the Principles, only in an inclusive society founded on human dignity, equality and the sustainable use of natural resources can individuals and businesses prosper. For this reason, it will also strengthen its commercial strategy so that it is in line with this commitment and so that its products and services can contribute to supporting and accelerating the fundamental changes in the economy and lifestyle that are necessary to achieve the SDGs and comply with the Paris Agreement.

Principles for Responsible Banking

COMMITMENT

Align our business strategy with the objectives of society expressed in the SDGs, in the Paris Agreement and other frameworks.

IMPACT

Continuously increase our positive impacts, reducing negative ones.

CLIENTS

Work responsibly with our clients to create prosperity shared by both current and future generations.

STAKEHOLDERS

Consult, involve and collaborate with relevant stakeholders to achieve the objectives of society.

GOVERNANCE AND ESTABLISHMENT OF OBJECTIVES

Implement commitments through effective governance systems and establish objectives for our most important impacts.

TRANSPARENCY AND RESPONSIBILITY

Be committed to transparency, taking responsibility for our impacts, positive and negative, and for our contribution to the objectives of society.

2

Commitment to climate action

ABANCA joined the climate agreement of the Spanish banking sector, the main objective of which is to promote a more sustainable and low-emissions economy, presented within the framework of the COP25 Climate Summit.

The agreement is in line with the Collective Commitment to Climate Action promoted by UNEP FI, the financial initiative of the United Nations programme for the environment, and signed by 31 banking entities around the world, including ABANCA. The document establishes specific actions and deadlines that the signatory banks will implement to expand their contribution and bring their activity in line with the objectives of the Paris Agreement on the climate.

3

Spanish Global Compact Network

ABANCA is a member, since its establishment in 2015, of the Spanish Global Compact Network.

4

Associations within our field of activity

ABANCA participates in various sector associations, such as the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA), the Entrepreneurs' Circle, the Iberian Cooperation Centre Association and the Spanish Business Association against Fraud, the amount allocated to membership fees being €479,600. (102-13)

Likewise, the bank has appointed representatives in foundations and sector entities that contribute to the development of the agro-livestock and forestry, fishing and industrial sectors, as well as non-profit or institutional entities throughout our scope of action, the amount allocated to membership fees to these being €127,938. (102-13)

At the same time, ABANCA promotes sustainability in the different sectors through the signing of financial agreements with the main representative entities to offer solutions to the main demands of each of the groups.

DIALOGUE with stakeholders

102-21, 102- 40, 102-42, 103-2, 103-3

Relations with stakeholders are a key element of ABANCA's strategy and corporate culture to contribute to the progress of society.

ABANCA has a wide range of tools for consultation and dialogue with stakeholders.

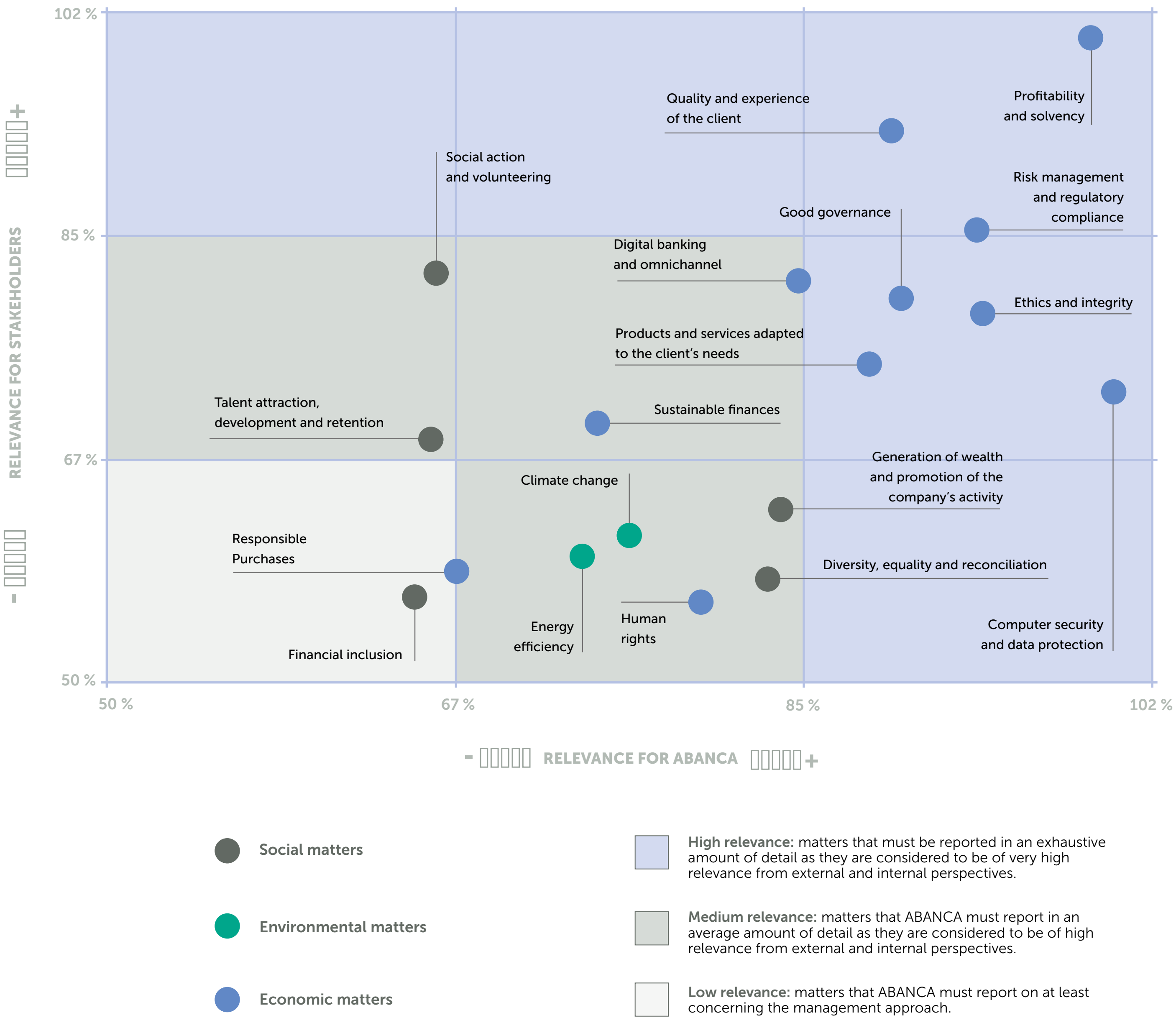
	Constant dialogue	Periodic dialogue
Employees	People managers Intranet Complaints channel Corporate website	Working climate survey Labour representatives Labour meetings Training seminars Internal quality metrics
Clients	Sales network Sales website Customer service Telephone service (902.12.13.14) Social networks	Satisfaction surveys *Focus group*
Suppliers	Purchase table Specialised managers Sales website	Periodic meetings Satisfaction surveys
Company	Sales network Sales and corporate website CSR inbox Communication Department Social networks	Meetings with social partners Communications to supervisors Corporate communications

ANALYSIS
on materiality

102-43, 102-44, 103-1, 103-2

ABANCA has updated its materiality study with the aim of identifying the relevant issues for the entity and for its stakeholders and using it to define the content of the Memory.

The methodology used in the study is based on the guidelines of the Global Reporting Initiative (GRI) standards, specifically GRI 101: Foundations, where it is established that the relevant issues are those that *"may be reasonably important because they reveal the economic, environmental and social effects of the organisation, or because they significantly influence the decisions of stakeholders and, therefore, possibly deserve to be included in the memory"*.



High relevance: matters that must be reported in an exhaustive amount of detail as they are considered to be of very high relevance from external and internal perspectives.

Medium relevance: matters that ABANCA must report in an average amount of detail as they are considered to be of high relevance from external and internal perspectives.

Low relevance: matters that ABANCA must report on at least concerning the management approach.

DETERMINATION of contents

103-1, 102-46, 102-47

Once the issues are validated, the material issues identified with the GRI standards and their coverage are linked, in addition to establishing the relationship of each of the material issues with the Sustainable Development Goals (SDGs).

Material issues	GRI Standard	Contents	Coverage: Origin – Inside	Coverage: Origin – Outside	Coverage: Implication – Direct	Coverage: Implication – Indirect	SDG related	Non-financial information law
1 Profitability and solvency	GRI 103 Management approach 2016 GRI 201 Economic performance 2016	103-1 to 103-3 201-1 to 201-4	•	•	•	•	SDG 8 SDG 13	Management approach Business model
2 Good governance.	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 415 Public policy 2016	102-18 to 102-39 103-1 to 103-3 415-1	•		•		SDG 16	Employment Management approach
3 Ethics and integrity	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 205 Anti-corruption 2016	102-16, 102-17 103-1 to 103-3 205-1 to 205-3	•	•	•	•	SDG 16	Application of procedures of due diligence Management approach Corruption and bribery
4 Risk management and regulatory compliance	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 206 Unfair competition 2016 GRI 307 Environmental compliance 2016 GRI 419 Socioeconomic compliance 2016	102-15, 102-30 103-1 to 103-3 206-1 307-1 419-1	•	•	•	•	SDG 16	Management approach Environmental management Tax information
5 Human rights	GRI 103 Management approach 2016 GRI 406 Non-discrimination 2016 GRI 412 Evaluation of human rights 2016	103-1 to 103-3 406-1 412-1 to 412-3	•	•	•	•	SDG 1-17	Management approach Application of procedures of due diligence Application of procedures of due diligence
6 Sustainable finances.	GRI 102 General contents 2016 GRI 103 Management approach 2016 Sector supplement	102-12 103-1 to 103 FS7, FS8, FS10, FS11	•	•	•	•	SDG 1 SDG 8 SDG 10 SDG 12 SDG 16	Management approach
7 Quality and experience of the client	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 416 Health and safety of the clients 2016 GRI 417 Management and labelling 2016	102-43 103-1 to 103 416-1, 416-2 417-1 to 417-3	•	•	•		SDG 1 SDG 8 SDG 10 SDG 12 ODS16	Management approach Consumers

Material issues	GRI Standard	Contents	Coverage				SDG related	Non-financial information law
			Origin		Implication			
			Inside	Outside	Direct	Indirect		
8 Products and services adapted to the client's needs	GRI 102 General contents 2016 GRI 103 Management approach 2016 Sector supplement	102-2 103-1 to 103 FS6, FS13, FS14	•	•	•		SDG 1 SDG 8 SDG 10 SDG 12 SDG16	Management approach Consumers
9 Responsible purchases	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 204 Acquisition practices 2016 GRI 308 Environmental evaluation of suppliers 2016 GRI 414 Social evaluation of the suppliers 2016	102-9 to 102-10 103-1 to 103-3 204-1 308-1 to 308-2 414-1 to 414-2	•	•	•	•	SDG12	Management approach Subcontracting and suppliers
10 Digital banking and omnichannel	GRI 103 Management approach 2016	103-1 to 103-3	•	•	•		ODS 9	Management approach
11 Computer security and data protection	GRI 103 Management approach 2016 GRI 418 Client's privacy 2016	103-1 to 103-3 418-1	•	•	•		SDG 16	Management approach Consumers
12 Energy efficiency	GRI 103 Management approach 2016 GRI 302 Energy 2016	103-1 to 103-3 302-1 to 302-5	•	•	•	•	SDG 7 SDG 8 SDG 12	Management approach Sustainable use of resources
13 Climate change	GRI 103 Management approach 2016 GRI 305 Emissions 2016	103-1 to 103-3 305-1 to 305-7	•	•	•	•	SDG 13 SDG 14 ODS 15	Management approach Contamination Climate change
14 Talent attraction, development and retention	GRI 102 General contents 2016 GRI 103 Management approach 2016 GRI 202 Presence on the market 2016 GRI 401 Employment 2016 GRI 402 Worker-company relations 2016 GRI 403 Health and safety in the workplace 2016 GRI 404 Training and teaching	102-8 103-1 to 103 202-1 401-1 to 401-3 402-1 403-1 to 403-4 404-1 to 404-3	•		•		SDG 1 SDG 3 SDG 4 SDG 5 SDG 8	Employment Management approach Social relations Health and safety Training
15 Diversity, equality and reconciliation	GRI 103 Management approach 2016 GRI 405 Diversity and equality of opportunities 2016	103-1 to 103-3 405-1 to 405-2	•	•	•	•	SDG 5 SDG 8 SDG 10	Contamination Work organisation Universal accessibility for people with disabilities
16 Generation of wealth and promotion of company's activity	GRI 103 Management approach 2016 GRI 203 Indirect economic impacts 2016	103-1 to 103-3 203-1, 203-2	•	•	•	•	SDG 1/ ODS 2/ ODS 3/ SDG 7/ SDG 8/ SDG 9 SDG 10/ SDG 11/ SDG 17	Management approach
17 Social action and volunteering	GRI 103 Management approach 2016 GRI 203 Indirect economic impacts 2016 GRI 413 Local communities 2016	103-1 to 103-3 203-2 413-1, -2	•	•	•	•	SDG 1 / SDG 2 SDG 3 / SDG 8 SDG 10/ SDG 11/ SDG 17	Management approach Commitments of the company to sustainable development
18 Financial inclusion	GRI 103 Management approach 2016 GRI 203 Indirect economic impacts 2016	103-1 to 103-3 203-1, 203-2	•	•	•	•	SDG 1 SDG 5 SDG 8	Management approach

corporate Governance

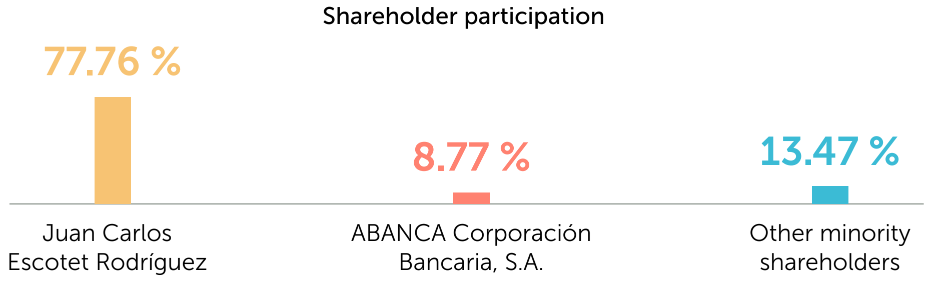
ABANCA's main objectives are to guarantee transparency, independence and the good governance of the entity.

SHAREHOLDER structure

102-5

ABANCA has a reference shareholder, Juan Carlos Escotet Rodríguez, whose participation is 77.76 % of the share capital as of 31 December 2019.

ABANCA Corporación Bancaria, S.A. maintains as treasury shares 8.77 % of the entity's share capital.



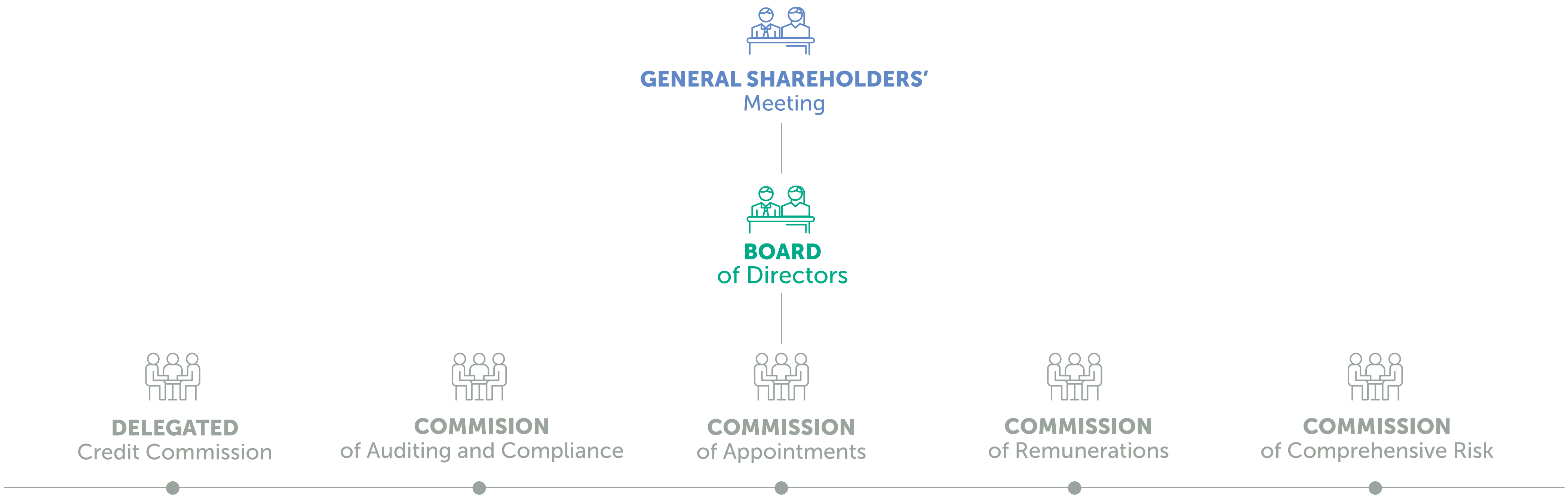
GOVERANCE model

Abanca's corporate governance model compiles the highest international standards and serves as a baseline for the compliance of its mission which is to be a sustainable, profitable and trustworthy financial entity, along with be focused on its clients' necessities.

General Shareholders' Meeting

102-18

Holders of any number of shares registered in their name in the corresponding accounting register five days prior to the date on which the meeting is to be held and who are up-to-date in the payment of pending disbursements have the right to attend general shareholders' meetings.



Board of Directors

102-22, 102-23, 102-24, 405-1, 102-31

It held a total of 14 meetings in 2019 and includes nine members.

President
Juan Carlos Escotet Rodríguez
Dominical director
Appointment: jun. 2017[1]

CEO
Francisco Botas Ratera
Executive
Appointment: jun. 2014
Other positions: Delegated Credit Commission, Management Committee.

Board Member
Ana da Cunha Barros
Independent
Appointment: jul. 2019

(1) He was vice-president from jun. 2014 to jun. 2017.

Board Member
Eduardo Eraña Guerra
Independent
Appointment: oct. 2016
Other positions: Commission of Appointments.

Board Member
José García Montalvo
Independent
Appointment: aug. 2014
Other positions: Commission on Auditing and Compliance, Comprehensive Risk, Remunerations.

Board Member
Leticia Iglesias Herraiz
Independent
Appointment: may. 2018
Other positions: Commission of Auditing and Compliance, Comprehensive Risk.

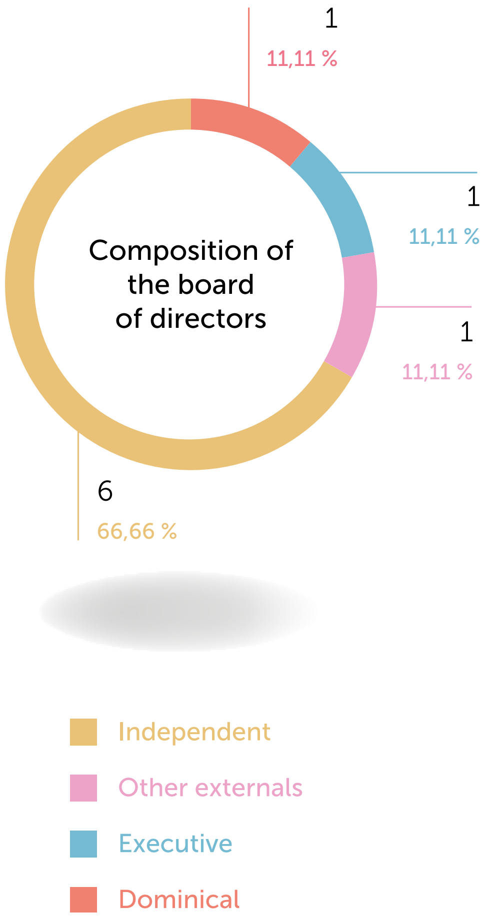
Board Member
Pedro Raúl López Jácome
Other external
Appointment: jun. 2014
Other positions: Delegated Commission on Credits, Auditing and Compliance, Appointments, Comprehensive Risk, Remunerations.

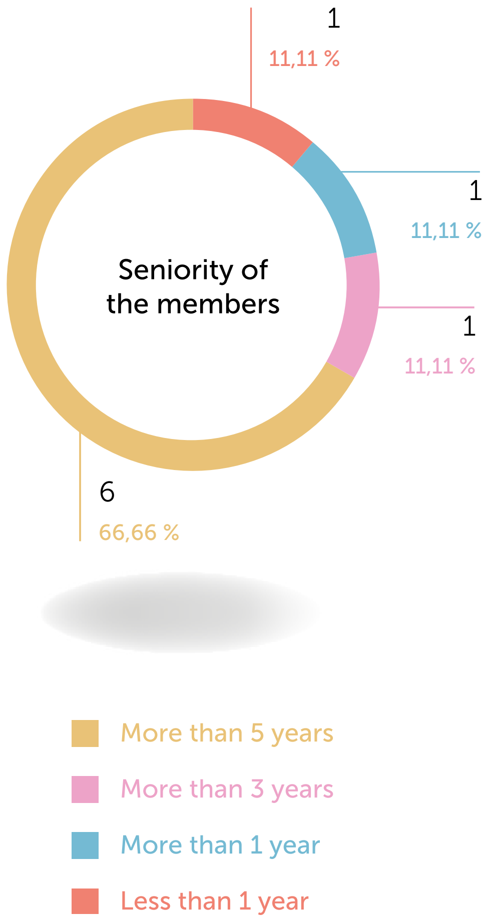
Board Member
José Ramón Rodrigo Zarza
Independent
Appointment: aug. 2014
Other positions: Delegated Commission on Credits, Auditing and Compliance, Appointments, Comprehensive Risk.

Board Member
Carina Szpilka Lázaro
Independent
Appointment: jun. 2014
Other positions: Commission of Auditing and Compliance, Remunerations.

In accordance with article 529 twelfth of the Corporations Act, "independent directors shall be considered to be those who, appointed in accordance with their personal and professional standings, can carry out their duties without being conditioned by relationships with the company or its group, its significant shareholders or its managers".

Additionally, in section Six (Classes of Directors) of the ABANCA Suitability Policy, it establishes that "... the number of independent directors will represent a majority in the composition of the Board of Directors". Such that in the current composition of the ABANCA Board, 66.66 % of the directors are independent.





The selection of members of the Board of Directors was carried out following the criteria of professionalism, independence, diversity, personal prestige and experience in the management of financial entities, and is governed by the principles and standards contained in the Selection and Continuous Evaluation Policy on the conditions of Suitability and Qualification of directors of ABANCA Corporación Bancaria, S.A.

Distribution, by sex and age, of the Board of Directors

405-1

	2017					2018					2019				
	Women		Men		% Total	Women		Men		% Total	Women		Men		% Total
	No.	%	No.	%		No.	%	No.	%		No.	%	No.	%	
Under 30 years old	0	0.0 %	0	0.0 %	0 %	0	0.0 %	0	0.0 %	0 %	-	-	-	-	-
Between 30 and 50 years old	1	50.0 %	1	50.0 %	100 %	1	50.0 %	1	50.0 %	100 %	-	-	-	-	-
Over 50 years old	0	0.0 %	6	100.0 %	100 %	1	16.6 %	5	83.3 %	100 %	**3**	**33.3 %**	**6**	**66.6 %**	**100 %**
Total	1	12.5 %	6	87.5 %	100 %	2	25.0 %	6	75.0 %	100 %	**3**	**33.3 %**	**6**	**66.6 %**	**100 %**

In this sense and regarding powers related to economic, environmental and social issues, the Board of Directors' regulations establish in article 4 the powers that the Board exercises directly, in its general supervisory function, which cannot be delegated, among which the following are highlighted for economic purposes:

1

The approval of the big strategies of the company and the group of which it is the leading entity, as well as the monitoring and supervision of its execution, assuming responsibility for the administration and management of the company and the approval and monitoring of the application of its strategic objectives and risk strategy.

2

Ensure the integrity of the accounting and financial information systems, including financial and operational control, as well as compliance with applicable legislation.

3

The approval of investments or operations of all kinds of a strategic nature, unless their approval corresponds to the General Shareholders' Meeting.

4

The drafting of the individual and consolidated annual accounts, the remaining financial information that the company must make public periodically, as well as the proposal for applying the results.

5

Participate actively in the management of all substantial risks contemplated in the solvency regulations, ensure that adequate resources are assigned for risk management and intervene in the appraisal of assets and in the use of external credit ratings and internal models related to these risks.

6

Approve and periodically review the strategies and policies for assuming, managing, supervising and reducing risks to which the company is or may be exposed, including those presented by the macroeconomic situation in which it operates in relation to the phase of the economic cycle.

As stipulated in point 2 of section four (General Requirements) of the Selection and Continuous Evaluation Policy on the Conditions of Suitability and Qualification of Directors of ABANCA ("the Suitability Policy"), *"All directors, regardless the origin or reason behind their appointment, have the main purpose of defending the Bank's interest, understood as the achievement of a profitable and sustainable long-term business that promotes continuity and maximises the economic value of the company. In search of the company's social interest, in addition to respect for laws and regulations and behaviour based on good faith, ethics, and respect for commonly accepted uses and good practices, they will seek to reconcile their own social interest with, as it applies, the legitimate interests of employees, providers, customers, and those of other stakeholders that may be affected, as well as the impact of the Bank's activities on the community as a whole and on the environment. They must carry out their functions efficiently, objectively and independently".*

Commissions

102-19, 102-22, 102-33

Delegated CREDIT Commission

The Delegated Credit Commission has the powers that correspond to the Board of Directors in relation to the granting and monitoring of financing operations, whatever their nature, including those related to improvement, recognition, modification, extension, anticipation of maturity, resolution, termination, renewal and, in general, everything that corresponds in relation to the acts, contracts or operations of the business or traffic of the banking entities in their financing operations.

Director	Position	Category	Appointment
Francisco Botas Ratera	President	Executive	aug. 2014
Pedro Raúl López Jácome	Board Member	Other external	aug. 2014
José Ramón Rodrigo Zarza	Board Member	Independent	aug. 2014

Of AUDITING and COMPLIANCE

The CAC informs the Board of Directors, among other things, about the financial information that the company must periodically make public, and the supervision of the internal auditing.

Director	Position	Category	Appointment
Leticia Iglesias Herraiz	President	Independent	aug. 2018
José García Montalvo	Board Member	Independent	may. 2018[1]
Pedro Raúl López Jácome	Board Member	Other external	aug. 2014
José Ramón Rodrigo Zarza	Board Member	Independent	aug. 2014
Carina Szpilka Lázaro	Board Member	Independent	dec. 2014

(1) He was president from aug. 2014 to aug. 2018.

Of APPOINTMENTS

102-24

Without prejudice to any other tasks that may be assigned to it at any time by the Board of Directors, it shall exercise the functions of evaluating the balance of knowledge, capacity, diversity and experience needed on the Board of Directors and shall prepare a description of the functions and skills necessary for a specific appointment.

Director	Position	Category	Appointment
Eduardo Eraña Guerra	President	Independent	oct. 2016
Pedro Raúl López Jácome	Board Member	Other external	jun. 2016
José Ramón Rodrigo Zarza	Board Member	Independent	dec. 2014

of COMPREHENSIVE RISK

102-30

It exercises, among other functions, that of advising the Board of Directors on the overall propensity to risk, both current and future, of the company and its strategy in this area, and assists it in monitoring the application of that strategy; ensuring that the pricing policy of the assets and liabilities offered to customers fully takes into account the business model and the risk strategy of the company and determining, together with the Board of Directors, the nature, quantity, format and frequency of information on risks which the Commission and the Board of Directors must receive.

Director	Position	Category	Appointment
José García Montalvo	President	Independent	sept. 2018[1]
Leticia Iglesias Herraiz	Board Member	Independent	sept. 2018
Pedro Raúl López Jácome	Board Member	Other external	mar. 2017
José Ramón Rodrigo Zarza	Board Member	Independent	sept. 2018[2]

(1) He was a board member from aug. 2014 to sept. 2018.
(2) He was president from aug. 2014 to sept. 2018.

of REMUNERATIONS

Without prejudice to any other duties that may be assigned to it at any time by the Board of Directors, it shall exercise the function of proposing to the Board the directors' remuneration policy (which must be voted on by the General Shareholders' Meeting in accordance with the provisions of the Board of Directors Regulations) and that of the senior executives of the Company, as well as the individual remuneration and other contractual conditions of the executive directors, ensuring their observance.

Director	Position	Category	Appointment
Carina Szpilka Lázaro	President	Independent	jun. 2016
José García Montalvo	Board Member	Independent	aug. 2014
Pedro Raúl López Jácome	Board Member	Other external	jun. 2016[1]

(1) He was president from aug. 2014 to jun. 2016.

Changes in the Board of Directors in 2019

The Board of Directors, at its meeting held on 29 July 2019, agreed to approve, at the proposal of the Appointments Committee, the appointment by cooptation of Ms Ana da Cunha Barros as independent director of ABANCA Corporación Bancaria, S.A., in such a way that the percentage of women on the Board of Directors reaches the established target of 30 %.

Functioning and matters relevant to the year

102-26, 102-27, 102-29, 102-34, 102-37

1

On 10 June, the Ordinary General Shareholders' Meeting of ABANCA Corporación Bancaria, S.A. was held, in which the agreements corresponding to each and every one of the items on the order of the day appearing in the summons of the Shareholders' Meeting, the announcement of which, in accordance with the Bylaws, was published on 9 May 2019, on the company's corporate website (www.abancacorporacionbancaria.com). In this regard and as an extraordinary point of the aforementioned Shareholders' Meeting, the agreement adopted in relation to item nine on the order of the day stands out, that is to say, the merger by absorption between ABANCA Holding Financiero, S.A. (absorbed company), and ABANCA Corporación Bancaria, S.A. (absorbing company).

2

In an extraordinary meeting dated 14 October 2019, the Board of Directors, following a favourable proposal from the Commission of Auditing and Compliance, approved the common merger by absorption project of Banco Caixa Geral, S.A., by ABANCA Corporación Bancaria, S.A., all in accordance with the provisions of Law 3/2009, of 3 April, on Structural Modifications.

3

On 26 June 2019, a meeting by the Board of Directors was held in Lisbon, coinciding with the successful culmination of the technological and operational integration of the business of Deutsche Bank PCB Portugal acquired by ABANCA, and as proof of the strategic relevance that Portugal has for the bank.

4

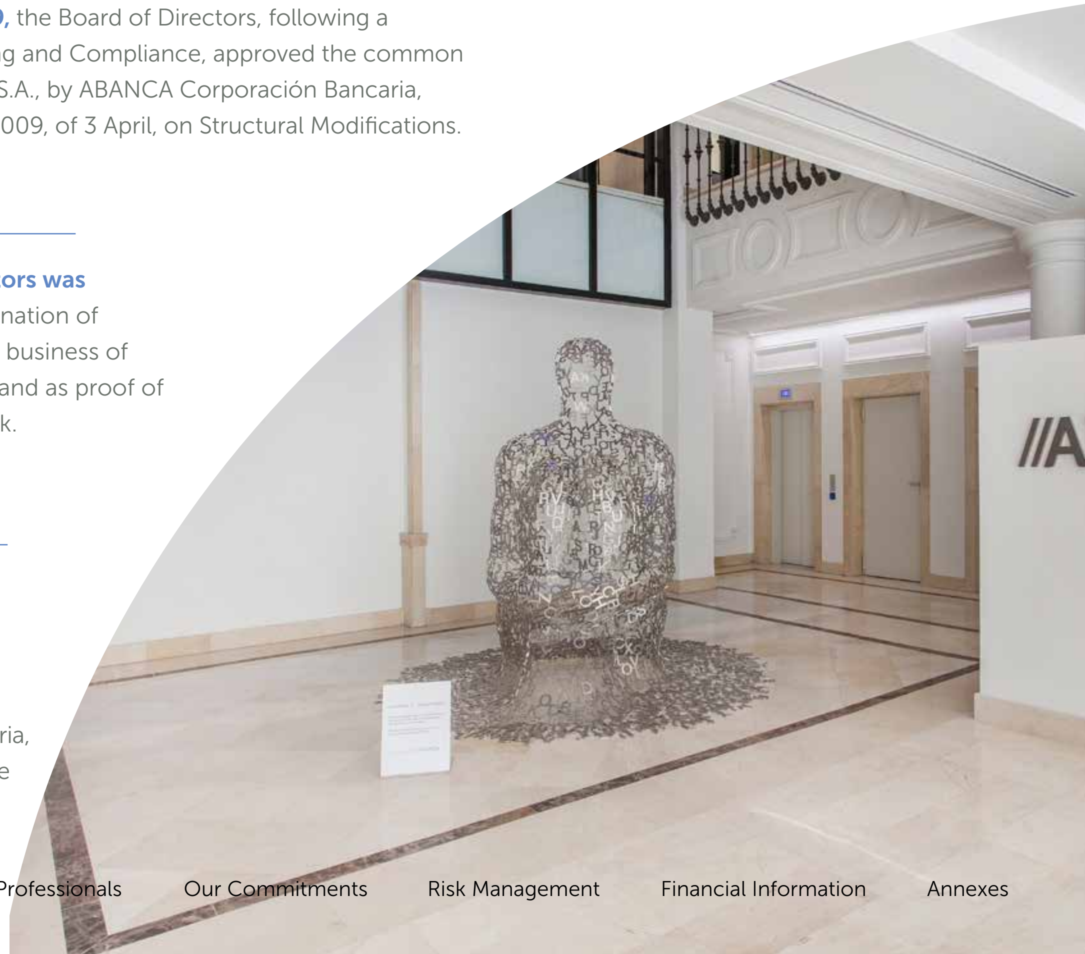
The Board of Directors, in its meeting held on 28 October 2019, agreed to approve, at the proposal of the Appointments Committee, the appointment by cooptation of Mr Manuel López Figueroa as an independent director of ABANCA Corporación Bancaria, S.A. Effective 4 March, the favourable resolution of the European Central Bank (ECB) was received.

Remuneration

102-35, 102-36, 102-37

The remuneration of the directors is determined in accordance with the remuneration policy of the Board of Directors, updated by the General Shareholders' Meeting of the Bank on 10 June 2019 (attended by 87.33 %). The proposal had 90.87 % of the votes in favour.

Information regarding Corporate Governance and remuneration.



Management Committee

102-20, 202-2

Francisco
Botas Ratera
CEO

José Eduardo
Álvarez-Naveiro Sánchez
Corporate Governance and Legal Affairs

Luis
Beraza de Diego
Business in Spain

María
Camino Agra
Human Capital

Alfonso
Caruana Cámara
International Business

Alberto
de Francisco Guisasola
Finances

Miguel Ángel
Escotet Álvarez
Corporate Social Responsibility and Communication

Pablo
Triñanes Lago
Corporate Control and Risks

José Manuel
Valiño Blanco
IT, Information, Processes and Operations

Pedro
Veiga Fernández
Strategic Planning and PMO

Juan Luis
Vargas-Zúñiga Mendoza
Capital Markets, Management and Institutional Distribution:

José Luis
Vázquez Fernández
Credit

Changes in the Management Committee

In 2019, Pedro Veiga Fernández, as General Director of Strategic Planning and PMO, joined the Management Committee; and Juan María Hernández Andrés, due to death, was deregistered.

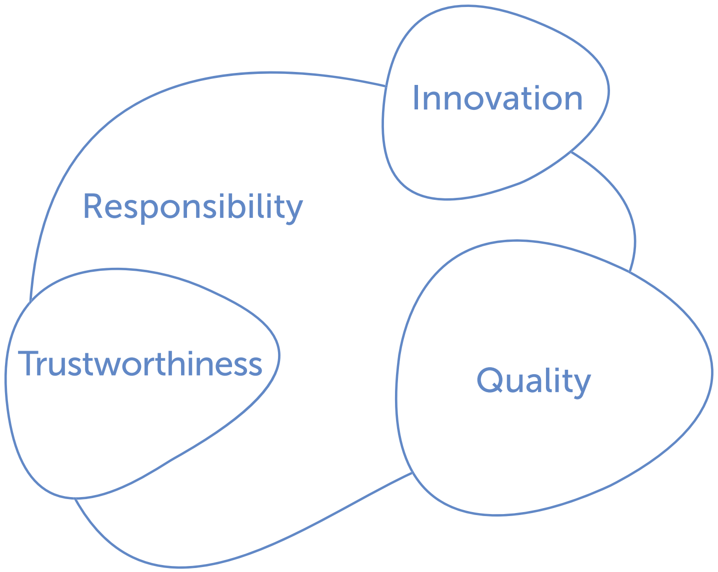
During the 2019 financial year, Julián José Serrapio Vigo, as the general auditor, and Álvaro García Diéguez, as general director of ABANCA Seguros, have continued to be part of the Management Committee. And Jorge Martínez Martínez, executive director of Payment Methods and Consumption, has joined. All of them are invited, with the right to speak but not to vote.

Information regarding the Management Committee.

GOOD governance

102-28, 103-2, 103-3

The fight against corruption and the encouraging having all ABANCA staff be guided by performance standards and corporate values that reflect our commitment to good governance and ethical behaviour have been priorities for our organisation since the entity was born.



Policies

102-16, 102-25, 103-3, 205-1, 205-2

ABANCA's activity is supported by mandatory policies, rules and procedures that ensure the undertaking of responsible behaviour throughout our sphere of action.

1. **Comply with current regulations** on the prevention of money laundering at all times and with the recommendations issued by international organisations and national and international authorities.

2. **Implement action** rules and **suitable control systems** to prevent access to the entity by undesirable persons or groups.

3. Establish **policies for acceptance / rejection of clients and procedures** calibrated depending on the risk aimed at knowing the client and preventing laundering activities.

4. **Ensure** that **all employees know them.**

ABANCA's code of ethics and conduct: is implicitly committed to human rights. Thus, article 88 includes respect for the rights to organisation, association and collective bargaining, as well as individual or collective activities carried out by union sections in accordance with the legally assigned functions. And in article 81, it rejects and penalises any type of discrimination based on gender, race, origin, condition, religion, ideology, politics, marital status or any other circumstance of a personal or social nature.

Sustainability policy: intends to include the entity's strategy and basic principles of action and commitments regarding sustainability, evaluate its strategic impact, and promote and manage initiatives designed to respond to the challenges posed by climate change from an environmental, social and governance viewpoint.

Anti-corruption policy: contains the specific anti-corruption procedures to comply with our obligations and complement current regulations (prevention of money laundering and terrorism financing, anti-fraud regulations, ICR, etc.).

Tax policy: includes the principles that most directly affect tax practice, such as transparency, honesty, responsibility, reliability and quality; all of them aimed at reducing significant tax risks and preventing behaviours likely to cause them.

Quality policy: our commitment to continuous improvement and excellence in process and service management as necessary leverage to offer quality services, promoting the best practices in management systems, knowing the expectations and needs of our internal and external clients, and promoting actions for constant improvement.

Supplier management policy: establishes the management framework between ABANCA's group companies and their suppliers, which is derived from the purchasing activity regulated by the Procurement Regulation.

Energy and environmental policy: compiles all the necessary elements for the understanding of management based on the fulfilment of the energy and environmental objectives.

Management policy on conflicts of interest: serves to develop the Internal Conduct Regulations (ICR) regarding the management of conflicts of interest.

Product governance policy: details the principles that support the procedures for the creation/issuance or distribution of new products, ensuring that current legislation is complied with and, in particular, the requirements regarding the governance of products and services.

Technological risk policy: establishes and regulates the general provisions and guiding principles of technological risk issues that are applicable to all ABANCA Group companies.

Business continuity policy: establishes the basic principles that allow for the implementation, management and maintenance of ABANCA's operating capacity, as well as the services it provides to the entity, when faced with an event that may impact business continuity.

Complaints channel

102-17, 103-2

The complaints channel is the tool available to employees and third parties to disclose, in a confidential, reliable and direct manner, all kinds of professional actions that do not comply with the law or internal regulations.

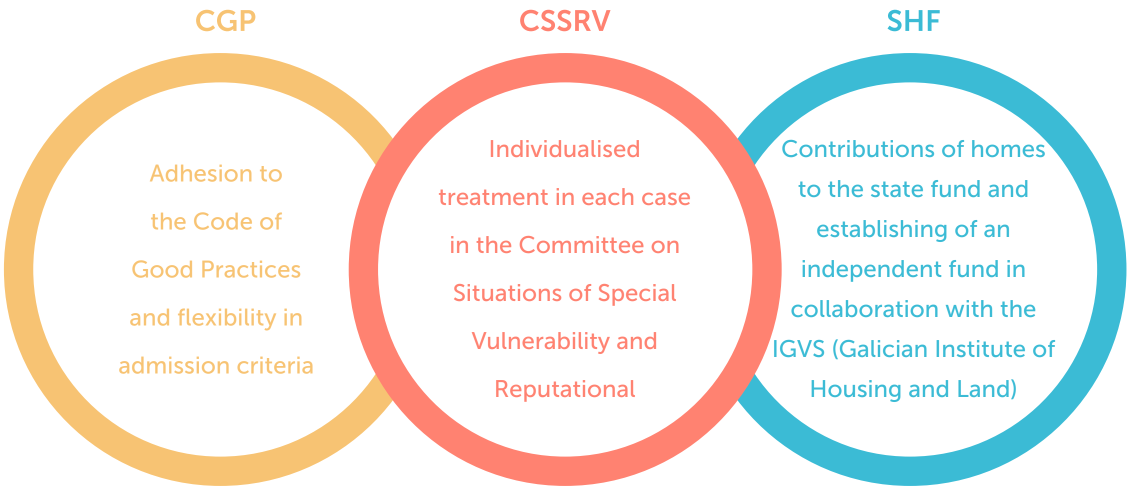
Singular housing management

103-2, 103-3, 203-1, 413-2

ABANCA, since 2016, has had available the unique housing management unit, in which communication is centralised and comprehensive management of all action proposals is guaranteed in response to possible new regulations, or needs, for protection of mortgage debtors, ensuring that situations of special social vulnerability are correctly resolved. All the proposals are derived from peaceful approaches and social rents. No launches are made when the foreclosure process affects the habitual residence of people in situations of special vulnerability.

The mortgage debtor protection policy is structured around three main lines of action:

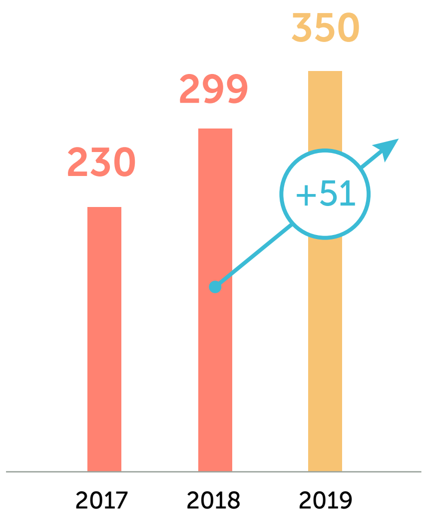
The mortgage debtor protection policy is structured into three axes



CGP, Code of Good Practices.
CSSRV, Committee on Situations of Special and Reputational Vulnerability.
SHF, Social Housing Fund.

Code of Good Practices	2017	2018	2019
Operations requested	**233**	**127**	**143**
Operations requested	**88**	**40**	**21**
Feasible re-structuring	45	18	11
Debt relief	2	1	2
Dation-in-payment	41	21	8
Operations denied	**113**	**55**	**45**
Non-compliance with requirements	113	55	45
Other causes	0	0	0

Total social rents



Economic environment and

strategic plan

The 2019 financial year was ABANCA's SECOND in the framework of its 2018-2020 strategic plan.

ECONOMIC environment

102-15

The world economy was conditioned in 2019 by a scenario of commercial and geopolitical tensions that led to a general weakening of activity and industrial production in particular. In this framework, it is estimated that the world GDP slowed its growth rate by 2.9 %, seven tenths less than in 2018. The slowdown affected both emerging economies and advanced economies.

In Europe, the Eurozone grew 1.2 % in 2019, compared to 2.5 % the year before. The slowdown extended to the main European countries, although it was reflected more intensely in the economies with the greatest industrial weight and export vocation, such as Germany (grew 0.6 %) and Italy (0.2 %).

The context of global slowdown also affected the Spanish economy, although it continued to show greater dynamism than that of the main advanced economies. Therefore, the GDP of Spain increased 2.0 % in the year, four tenths less than in 2018.

Domestic demand was moderated due to a lower boost in private consumption and investment (with a more pronounced halt on construction), while public consumption accelerated slightly. Foreign demand reverses its role and, in spite of an adverse global scenario, it contributed positively to growth.

The labour market continued to show favourable behaviour, although the rates of job creation were consistently moderated with the slower growth in economic activity. The Active Population Survey data for the fourth quarter in Spain reflect an increase in employment of 2.1 % in year-on-year terms, creating 451.6 thousand jobs (on average) in the year, against 502.9 thousand in 2018. This dynamic allowed us to prolong the reduction in the number of unemployed persons, placing the unemployment rate at 13.8 %, six tenths less than a year earlier.

Meanwhile, Galicia maintained a less intense momentum than that of Spain as a whole, with a GDP growth of 1.8 % in 2019 (estimated), compared to 2.2 % the previous year. The labour market accompanied the moderation in activity, with an increase in employment of 0.7 % year-on-year and accounting for 17.6 thousand more employees in the year as a whole (24.9 thousand in 2018). The unemployment rate remains below the Spanish average, ending 2019 with an unemployment rate of 11.7 %, compared to 12.0 % at the end of 2018.

Spanish inflation remained at contained levels throughout the year. In December, general inflation stood at 0.8 % year-on-year, while underlying inflation remained two tenths above, at 1.0 % year-on-year.

The main risks to world growth are in the possible escalation of trade or geopolitical tensions that could trigger a sudden imbalance in global financial conditions.

2.9 %
Slowdown in global GDP growth.

2.0 %
Increase of GDP in Spain.

Containment of inflation with a year-on-year rate of
0.8 %

Strategic plan 2018-2020

103-2, 103-3

The 2019 financial year was ABANCA's second in the framework of its 2018-2020 strategic plan, which defined the Bank's vision and its materialisation in the strategic priorities for the three-year period: *"Toto become a financial and forecasting entity recognised for client experience in fully satisfying their financial and forecasting needs from any channel and from anywhere thanks to a leading Mobile Banking and a fast, simplified and efficient organisation leveraged in digitalisation and an innovative culture. To be a bank with a recurring result that sustainably places its ROE above the cost of capital".*

In order to comply with this objective, three fundamental strategic axes were defined:

1. **To transform the organisation, promoting a simpler, more agile and cooperative structure,** which allows for an innovative culture to be promoted and the digitalisation process that impacts efficiency levels and the level of customer service to be advanced.

2. **Improve client experience,** promoting a multi-channel relationship with similar service levels irrespective of the channel used by the customer in its relations with the Entity, with high quality standards allowing to strengthen the offer of value-added products and the engagement levels supported by the competitive advantage represented by the bank's mobile banking business.

3. **Increase recurrent return on capital** by fostering the insurance business as a first level strategic priority, by paying special attention to consumer finance and payment means after the integration of ABANCA Servicios Financieros (ASF), and by becoming the reference bank for business and SMEs. All the foregoing will be achieved while optimising use of capital and expanding the business to markets more profitable than Spain and maximising problematic risk management.

» **The objective established by the strategic plan is to achieve growth above the market** in insurance, investment funds, pension plans, financing for SMEs and consumption, which would lead the bank in 2020 to manage a business volume of more than 90,000 million euros, considering purchase operations (Deutsche Bank's Private & Commercial Client ("PCC") Portugal and Banco Caixa Geral, S.A.).

During this second year, the Plan's targets for 2019 have been complied with as foreseen, with the following noteworthy milestones:

1. The objectives of the strategic plan are met in 2019 by 99 %, with 101 % in the financial perspective and very close to those established in relation to clients, learning and growth or process improvement.

2. Growth with sustained profitability: Net Profit exceeded the target by 34 million. The interest margin met 99 % of the target affected by the impact of the change in the interest rate curve, while commissions and the contribution of the insurance business exceeded the target. The solid base of recurring income, along with the technological effort and cost control carried out, allowed us to improve recurring efficiency, surpassing the target set. As a result of all the foregoing, ROE and ROTE stand well above the target for the year.

3. Commercial dynamism with a focus on micro and value-added products: Financing for SMEs and self-employed persons remained a pillar of credit growth, with a gain of 9 basis points in the Spanish market share in this segment. The weight of the formalisations of operations > €1M in 2019 stands at -234 b.p. below the system consolidating the switch to micro. In value-added products, the Group increase its market share in investment funds (+8 b.p.), pension plans (+2 b.p.) and life savings insurance (+7 b.p.).

4. Risk quality: the NPL ratio is reduced to 2.79 %, surpassing the plan's target, below the average for the Spanish sector and with a coverage of non-performing assets (NPL and foreclosed) that is the highest in the sector.

5. Solvency and liquidity: ABANCA closed 2019 with a CET1 ratio in line with the 13 % benchmark defined in the 2018-2020 strategic plan. The financing structure is clearly based on retail deposits.

MAIN guidelines 2019

102-10

1 Consolidation of the Iberian dimension

Integration of Deutsche Bank PCB Portugal.

ABANCA has made a significant jump in business volume and implantation in the Portuguese market after the integration of Deutsche Bank PCB Portugal in June.

After the integration, ABANCA ranked 10th in the Portuguese market for both client funds and credit, as well as being the top entity in Advisory Banking.

Purchase of Banco Caixa Geral.

ABANCA and Caixa Geral de Depósito closed the purchase and sale process of Banco Caixa Geral, S.A., with the signing of the procurement contract.

With this operation, ABANCA increased its commercial network with 110 offices distributed throughout Spanish territory, with a particular presence in the provinces closest to the border with Portugal.

2 The merger by absorption of ABANCA Holding Financiero

ABANCA's General Shareholders' Meeting, on 10 June, at its ordinary annual meeting, approved the draft of the merger by absorption of ABANCA Holding Financiero, the majority shareholder of the financial entity.

This merger allowed ABANCA to strengthen even further their broad capitalisation. Furthermore, the merger simplified the corporate and governance structure, resulting in improved efficiency.

Purchase of Banco Caixa Geral.

Alliance in insurance.

3 Push towards insurance business

ABANCA and Crédit Agricole Assurances, in July, presented the agreement that has united them for the next 30 years to operate in the general insurance market in Spain and Portugal. The first European insurance bank and ABANCA created a 50 % joint venture that will offer the market innovative products supported by technological solutions and accompanied by a differential client experience.

Full text of the Commitment.

ABANCA President Video

4 Sustainable ABANCA

Signing founders of the Principles for Responsible Banking.

ABANCA is one of the founding signatories to the Principles for Responsible Banking, the financial initiative by the United Nations Environment programme (UNEP FI). The entity thus joins a coalition of 130 banks around the world and is committed to aligning its business with the Sustainable Development Goals (SDGs) and the Paris Agreement on climate change.

Commitment to the climate.

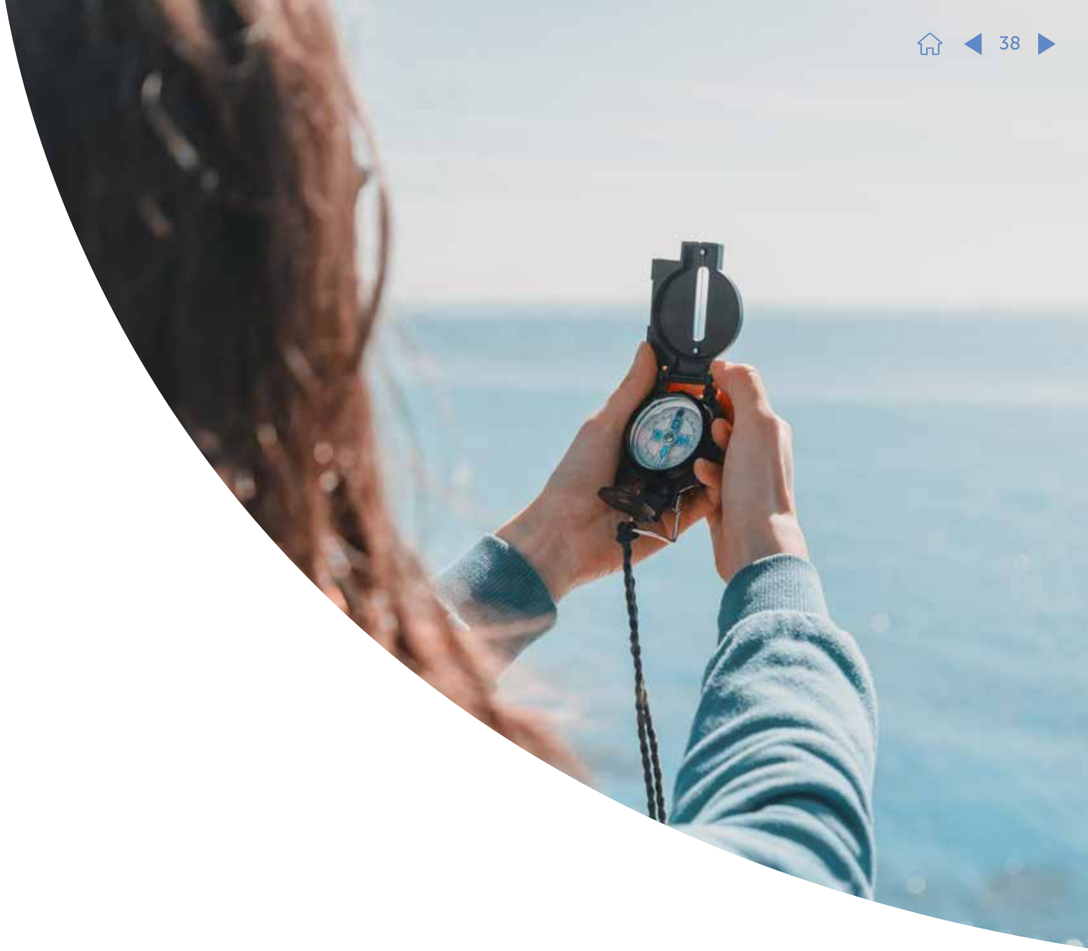
ABANCA joined the Collective Commitment to Climate Action signed in New York, by 31 banks around the world that take the tangible first step in the commitment to align their businesses with international climate objectives. The document establishes specific actions and deadlines that the signatory banks will implement to expand their contribution and bring their activity in line with the objectives of the Paris Agreement on the climate.

ACTIVITIES and outlook for 2020

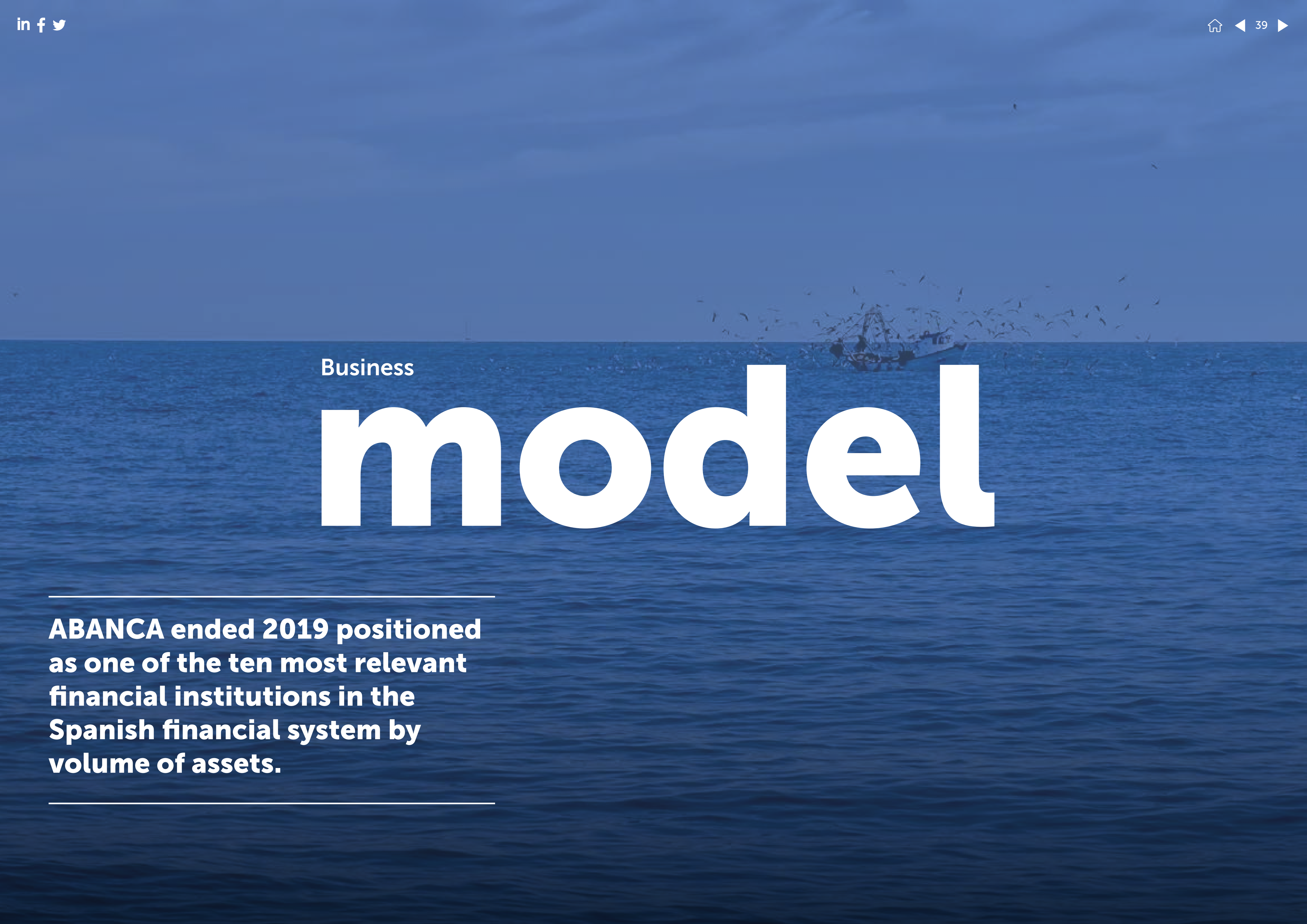
103-2

Economic projections for 2020 point to a rebound in global economic activity, fuelled by a recovery in trade and industry. Specifically, the world GDP could rise by 3.3 % in the year, four tenths more than in 2019, according to the forecasts of the International Monetary Fund. Emerging economies will likely register as a whole a 4.4 % annual growth rate, whereas expectations for developed economies point to a 1.6 % average GDP growth.

The Spanish economy will extend its current expansionary cycle in 2020 and will continue to grow above the large European countries, although at a slower rate (around 1.7 %). Growth will remain intensive in job creation, leading to a further reduction of the unemployment rate. As for Galicia, it will extend its drive into 2020 growing at a rate in line with the figures for the whole of Spain.



This framework reasserts the suitability of the properties guiding ABANCA's activity and which have been included in the strategic plan of 2018-2020.



Business model

ABANCA ended 2019 positioned as one of the ten most relevant financial institutions in the Spanish financial system by volume of assets.

102-2 ABANCA ended 2019 positioned as one of the ten most relevant financial institutions in the Spanish financial system by volume of assets and international presence (82 points of sale abroad distributed throughout 10 countries).

ABANCA develops a business model clearly focused on retail banking, with special attention to the financing and provision of financial services to companies (mainly SMEs and the self-employed) and families/individuals, as well as the coverage of social security services (insurance, plans pensions, risk coverage, etc.). In this model, the client is set up as the priority attention centre of the entire organisation, which focuses on comprehensive coverage of its financial needs through simple and high-quality products and services, adapted to their specific needs and fulfilling the values of the organisation (responsibility, reliability, quality and innovation).

ABANCA is committed to a customer relationship model based on the omnichannel, which allows them to interact through the different distribution channels available. Through a multi-channel distribution platform, the client decides how and when to carry out their financial operations, maintaining the traditional office as a personalised service centre and main relationship channel, complemented by the support of alternative channels (online banking, mobile banking, payment methods, ATMs, etc.).

One of the pillars on which ABANCA's business model rests is that of keeping a large part of the financial services businesses it provides (insurance, cards, funds, plans, payment management, real estate servicing, etc.), with the aim of retaining the value of these businesses within the entity and guaranteeing high levels of client experience through control of the value chain. This strategy also aims to be a source of diversification and recurring income generation, as well as a potential lever for capital generation.

It is worth noting the relevance of technology within the entity's business model. At ABANCA there is a strong commitment to this factor as a way to improve efficiency, customer satisfaction and adequate competition in an increasingly digital environment, being one of the entity's strategic lines. The bank has focused on the development of digital channels with 50 % of its customers connected to digital channels, which account for 20 % of the formalisation of credit to individuals, leveraged in mobile banking placed among the best valued on the market. This commitment to digital channels, along with the operational migration policy, has allowed 55 % of operations to be derived from outside of the office, while allowing multichannel and uninterrupted operations (24x7) for its more than two million clients.

MULTI-CHANNEL distribution

102-4, 102-6

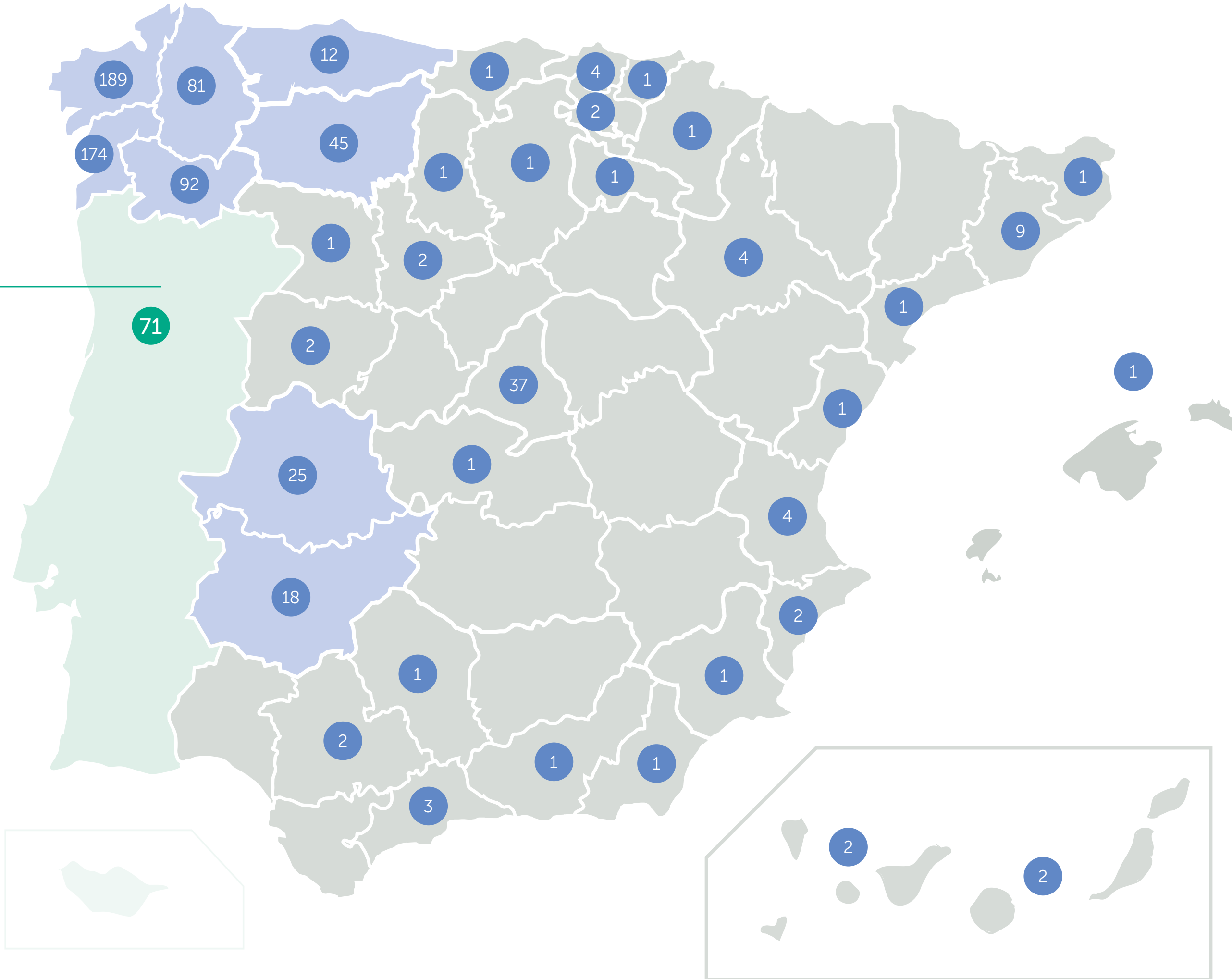
727

offices in Spain.

SPAIN (727)

In the autonomous communities of **Galicia, Asturias, Extremadura and province of León,** ABANCA has a proximity network with a strong presence that focuses on families and SMEs and a specialised customer-focused service through client managers of personal banking, micro-SMEs and self-employed persons, and business and activity areas focused on key sectors (agri-food, maritime, etc.), always with the complement of remote services that allow the client to carry out their operations.

In the **rest of Spanish territory,** it is committed to a much more selective physical network, aimed at company or high equity clients and very much supported by remote services (mobile banking, ATMs, POS...).



PORTUGAL (71)

With the incorporation of the Deutsche Bank network and retail business in 2019, ABANCA has given a strong push to its presence on the Portuguese market and its consolidation as an entity with an Iberian dimension, which is key in the future development of the entity due to its geographical proximity and the strong commercial ties between the two countries. The entity ended 2019 with 71 points of sale in Portugal supported by digital solutions (mobile banking).

INTERNATIONAL PRESENCE (11)

ABANCA's presence abroad is complemented by two operating branches in Switzerland (Geneva) and the United States (Miami), Sociedad Financiera de Objeto Múltiple (SOFOM) (Mexico) and eight representative offices (Germany, Brazil, France, Mexico, Panama, United Kingdom, Switzerland and Venezuela).

MAIN business lines and products

102-2, 103-2, 103-3, FS6, FS13

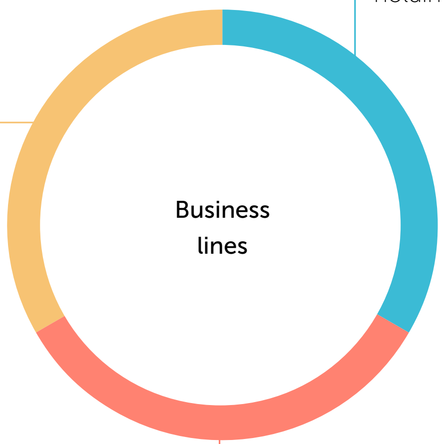
ABANCA prepares its accounting information by business lines in accordance with the provisions of IFRS 8. The business lines on which the information is presented are as follows:

2 Wholesale banking

Market activity (treasury, issues, fixed income portfolio, etc.) and management of the variable income portfolio in which the Company has not very significant holdings.

Retail banking 1

This constitutes the main axis of the entity's activity and is aimed at all types of retail clients (individuals, companies and public administrations) who are offered a wide range of financial and para-financial products.



Non-financial subsidiaries 3

Portfolio of non-financial companies created with the vocation of supporting the productive framework and the Company's activities.

1. Retail banking

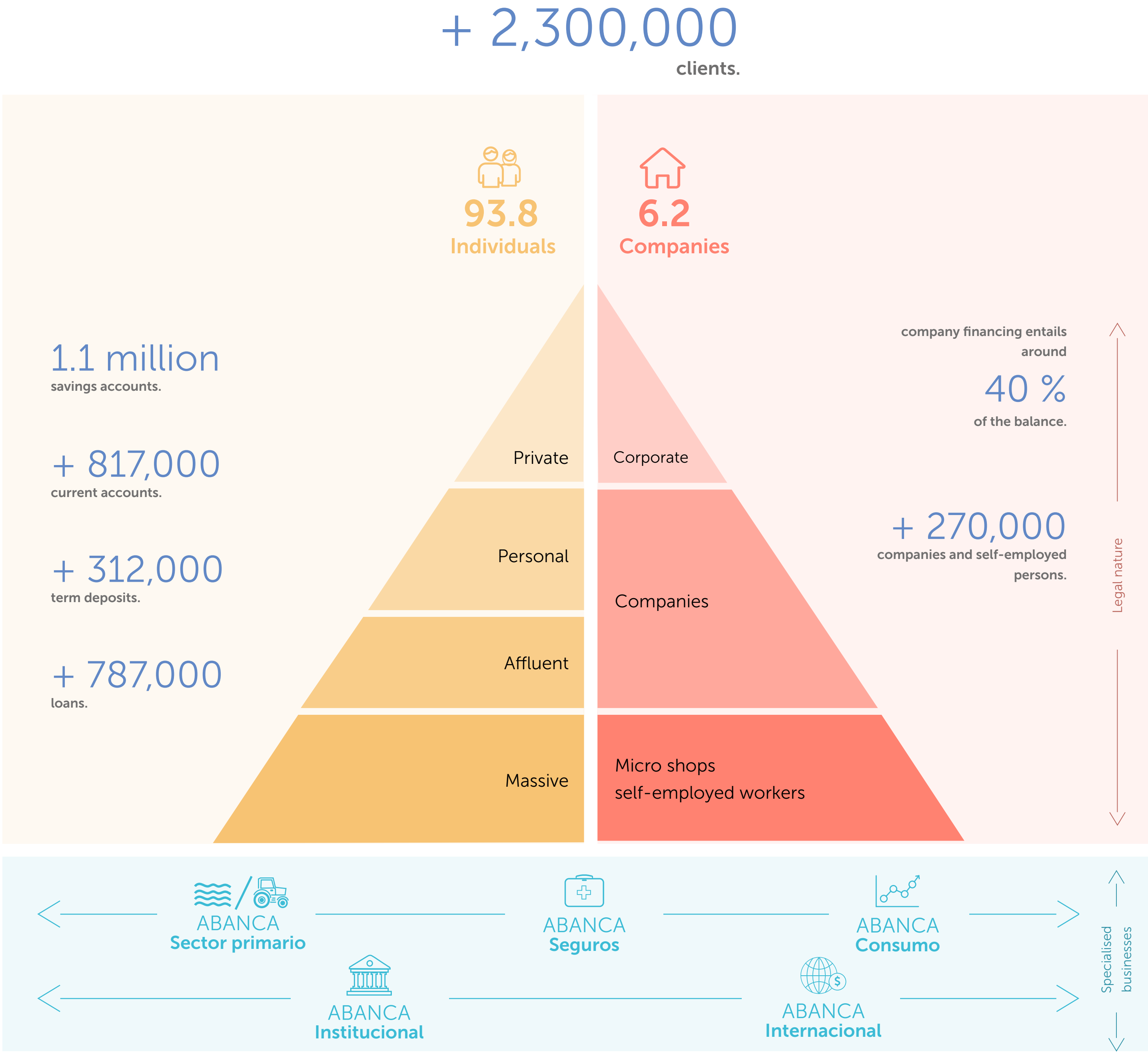
ABANCA focuses its activity on traditional, prudent, close and customer service retail banking, placing individuals, SMEs and self-employed persons as the groups that make up the fundamental pillar on which the rest of the specialised value propositions are based.

The sales strategy of ABANCA is based on:

- a **segmentation according to type of client,** in order to offer different products and services adapted to their needs, at all times obeying a differential attention model and value proposal. These products and services are offered in a multi-channel environment, expanding the possibilities of interrelation between client and entity.

  As shown in the following graph, segmentation is divided into two dimensions, according to the legal nature of the clients or according to the specialisation of their businesses, interconnected so that the service is as personalised and professionalised as possible.

- b **The second dimension identifies certain clients based on other differentiation criteria.** In this way, specific areas (Specialised Businesses) are created to provide services to specific groups:



ABANCA Agro

ABANCA Mar

ABANCA primary sector

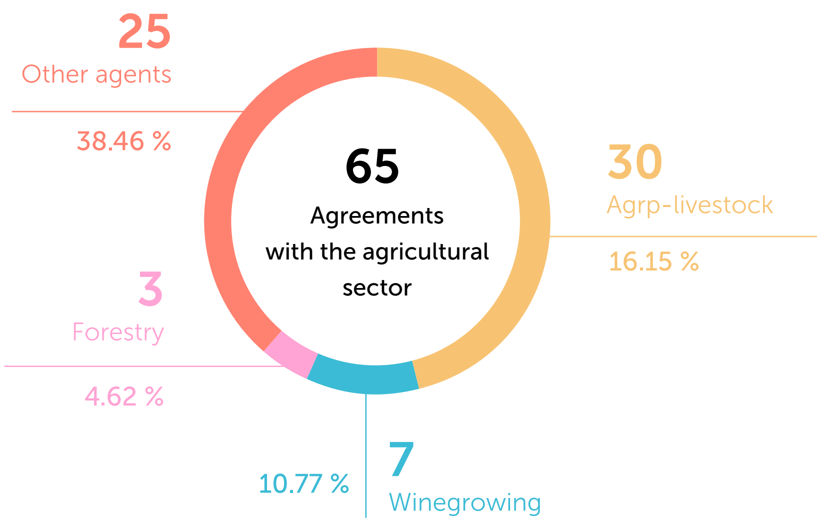
203-2, FS7, FS8

ABANCA Mar and ABANCA Agro are examples of specialisation in caring for individuals, companies, cooperatives and other agents in the primary sector, covering the entire value chain of the agro-livestock, wine, fisheries and aquaculture sectors.

Direct debits of CAP:

Galicia Leaders, quota of
48.19 %

In León, quota of
15.26 %



ABANCA Agro renders services to the agro-livestock, wine and forestry sectors, encompassing the entire value chain, with a special focus on producers, suppliers and the processing industry through our network of offices with a wide presence in rural areas.

The product catalogue contributes to the entity's commitment to sustainability with the signing of 65 agreements with the main stakeholders in the sector, as well as with the main Reciprocal Guarantee Associations (RGA) in order to stimulate and offer solutions to the main demands of the associates of the sector.

Active participation in the events of the sector:

- ABANCA Green Week of Galicia.
- ABANCA CIMAG-GANDAGRO.
- SALAMAQ 2019.
- Machinery fair Valencia de Don Juan.
- Machinery fair Muimenta (MOEXMU).
- Semana Gandeira de Mazaricos.
- Agroexpo (Don Benito-Badajoz).
- Fruit Attraction.
- Expobiomasa Valladolid.

ABANCA Mar, department specialised in the maritime and fishing sector, provides service to these sectors through a proximity network made up of 112* offices with significant business in the sea sector throughout Spanish territory.

Active participation in the events of the sector:

- Conxemar.
- IX Worldwide Tuna Conference.
- Vigo Seafest.
- I Congress by fishing producer organisations.
- I Ibero-American Fishing Forum.
- VI International Fishing Seminars on Great Migrators.
- XV Festa do Peixe Espada.
- EXPOMAR 2019.
- FENACAM 2019.
- Congress of FREMSS.

Collaboration agreement with
86
agents of the sector in Galicia.

ABANCA Seguros

ABANCA Seguros: The development of this business line is of key importance as a generator of recurring results for the Company, while allowing for the diversification of sources of income.

ABANCA Seguros carries out its insurance business through a structure that has three lines of action:

1. "ABANCA Vida" to develop a wide range of life products (risk and savings).
2. General insurance, in which the joint venture with Crédit Agricole is expected to offer a broad and innovative product offering.
3. Brokerage to satisfy the needs of customers who demand more personalised products due to their specific characteristics (complexity of risks, volume of coverage, etc.).

This efficient structure was created after a relaunch process that redefined the organisational structure of ABANCA's insurance and pension plans business, supported by a series of purchases and mergers that have allowed ABANCA to regain 100 % control over the value chain of its insurance business.

This new business model is backed by a team of sales managers located in ABANCA branches specialised in each insurance business area.

+ 19 %
company insurance premiums.

+ 17 %
death insurance premiums.

+ 36 %
health insurance premiums.

+ 53 %
protected payment insurance premiums.

+ 15 %
clients with more than five polices at a flat rate.

+ 18.7 %
new production general insurances.

ABANCA Consumo

ABANCA Consumo. ABANCA Servicios Financieros provides financing solutions to the consumer sector, demanded both by end consumers (postponement of purchases, point-of-sale financing, etc.) and by businesses.

This business unit provides a specific structure in consumer credit, focused on points of sale, prescribers (dealers, retailers, etc.) and pre-authorised loans to clients (cards/loans). ABANCA Servicios Financieros has a team of managers who stimulate activity with businesses/dealers, in addition to supporting the network of offices. This is complemented by a call centre service for telephone sales and support to client businesses.

In the year 2019, it is worth highlighting the launch of ABANCA Card, a card that rewards the loyalty of our customers, allowing them to access offers and promotions directly. Developed by Mastercard, it is a free service that can be used as a credit card, although it is activated by default as a financing tool, and has no associated fees.

ABANCA Institucional

Institutional ABANCA. The public sector also has a specialised area in ABANCA, where a qualified and experienced team offers all kinds of solutions for the financial needs of organisations, public companies, associations, foundations, etc. Organised in a territorial network to offer close and individualised advice, the Institutional Banking coordinators personally manage a wide portfolio of institutional clients throughout Spain. Loans, credit policies, lines of guarantees, factoring and confirming are the main solutions that every day support the activity of institutional clients.

Through this area, ABANCA also collaborates with collection agencies with the aim of improving the efficiency of the processes for collecting fees, public prices and other income. In this sense, it collaborates in the development of innovative solutions for the collection of receipts, as is the case of the mobile application for the collection of local taxes.

Institutional clients at ABANCA also enjoy specialised treatment when it comes to managing grants for their projects. On a yearly basis, this area coordinates more than a hundred collaboration agreements with municipalities, autonomous communities, associations, foundations, etc., to develop initiatives that promote the social, economic and cultural development of their environment.

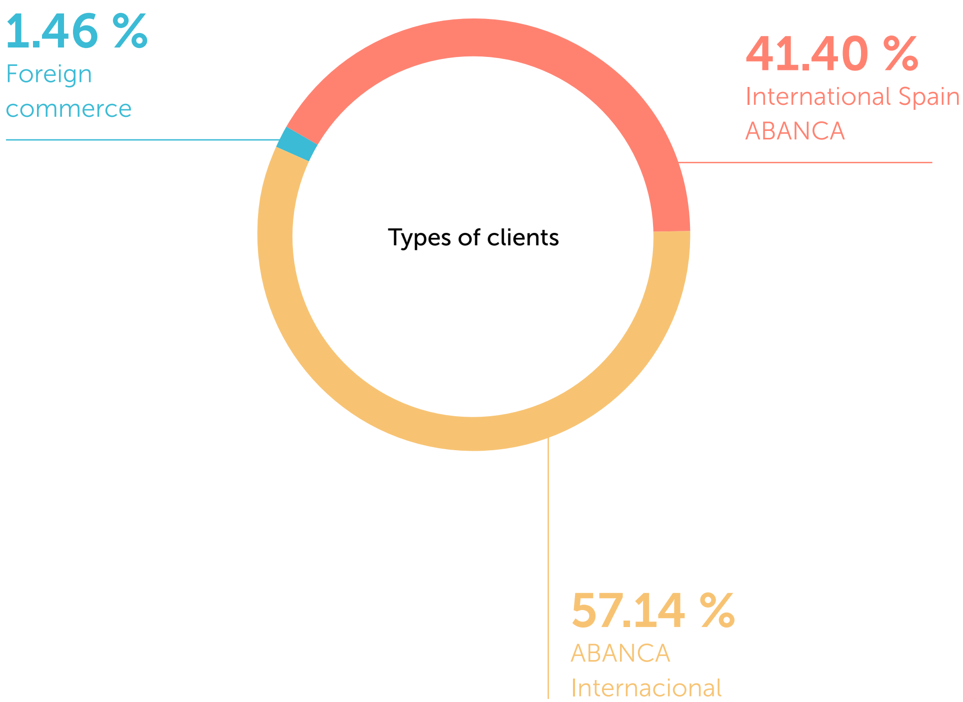
+ 350
collaboration agreements.

ABANCA Internacional

ABANCA Internacional: develops the complementary international presence strategy in geographical areas that maintain links with ABANCA's "natural" regions.

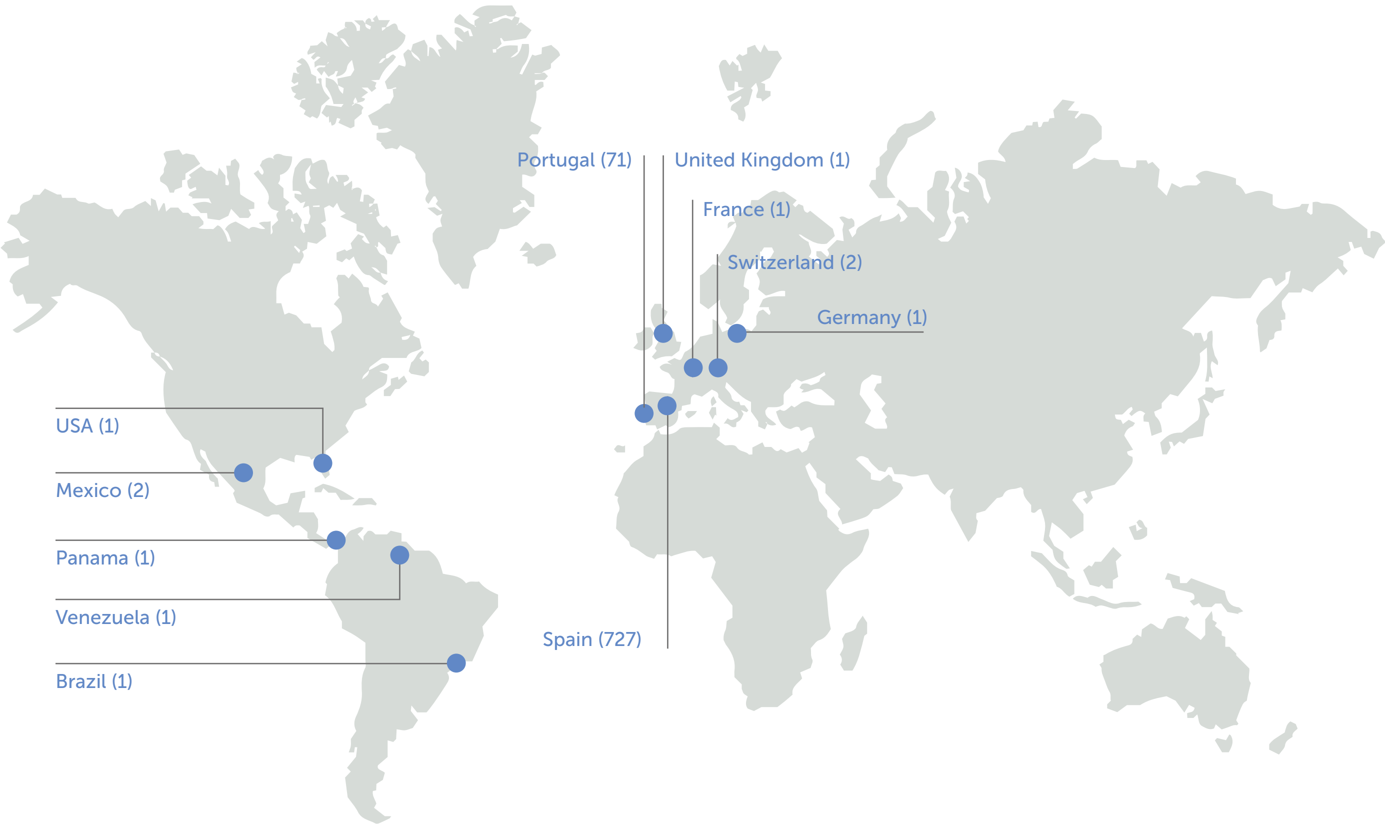
Types of clients

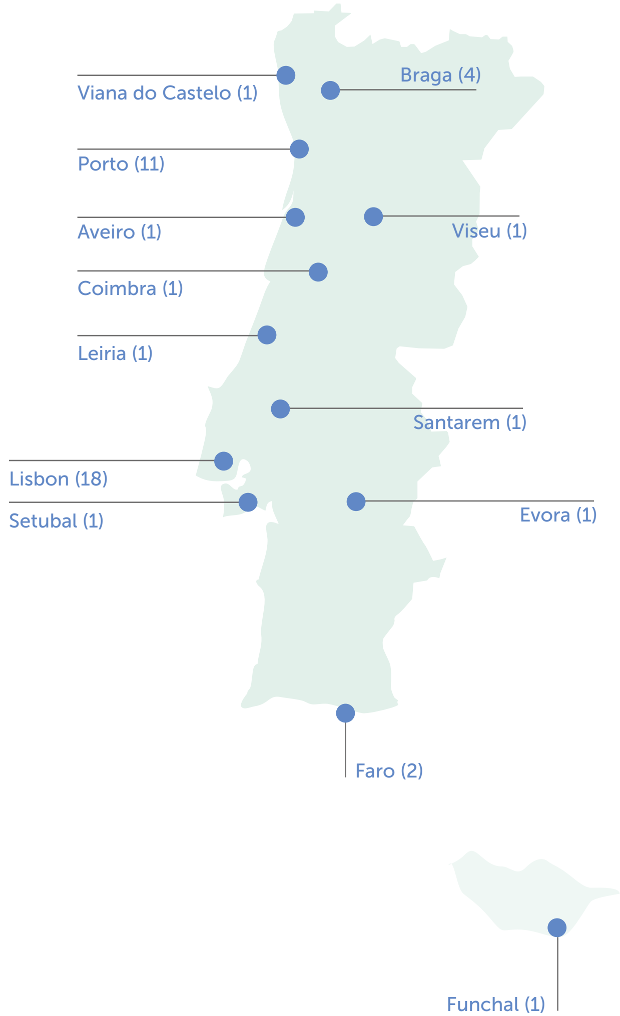
1. International Spain ABANCA: provides services to clients with residence in other countries who wish to maintain banking relationships with an entity located in Spain.
2. ABANCA Internacional: serves clients who have residence in other countries but who wish to have banking relationships with a bank located in their country of residence.
3. Foreign commerce clients: segment made up of companies with economic interests and residence in Spain. The activity of these clients requires specific financial advice, products and services, which is why they are attended by managers specialised in foreign commerce and the Back Office Comex department.



102-4, 102-6. ABANCA is present in 11 countries that are the leading economies in Europe and America. In 2019, its international presence was bolstered with the purchase of the retail business of Deutsche Bank in Portugal, an economic space of natural expansion for ABANCA due to the high amount of commercial exchanges with Spain in general and with Galicia in particular.

During the year 2019, many events have taken place that have become benchmark appointments among our international clients when they visit Spain, highlighting: “Meeting with non-residents in Tenerife”, “Meeting with Galician entrepreneurs in the world”, “ABANCA International Pilgrimage”, “Meeting with Venezuelan clients in A Graña”, “Meeting with Asociación de Inmobiliarias de Canarias (ACEGI)”, “Networking seminar in Rio de Janeiro”.





ABANCA Portugal.

2. Wholesale banking

Notwithstanding the fact that ABANCA finances its retail credit activity (with client deposits, with a LTD ratio (credit/deposits) of 96.3 % as of 31 December 2019), the wholesale banking unit complements the activity of the Company and constitutes a complementary source of income for the income statement.

One of the main functions of the area is the investment of the excess liquidity generated by commercial activity. Likewise, it manages the treasury and liability positions in the capital market to implement the transformation of balance sheet deadlines and exposure to interest rate risk. In addition, wholesale banking provides supports to the areas of the sales network that perform discretionary portfolio management, disseminates knowledge to ABANCA managers/clients about the most standardised investment portfolios, and monitors investment funds/pension plans designed by ABANCA. Likewise, it collaborates in the distribution of treasury products to the sales network (retail, companies, corporate, Comex and institutional) and coordinates the currency and derivatives tables, with the aim of offering the best prices on these products to the internal client (balance/trading) and external client. On the other hand, it deals with the management of the investment portfolio in listed and unlisted companies, which includes unrepresentative participations with the aim of generating profitability for the Company via dividends or capital gains and maximising efficiency and solvency, minimising outputs and maximising inputs of resources.

3. Non-financial subsidiaries

This includes the portfolio of non-financial companies with the vocation of supporting the local productive framework and the Company's activities.

In the financial year of 2019, the rotation policy of the Group's investee portfolio was continued, divesting from projects in which the objectives established at the time of participation were met, as well as making new investments in those projects. These are included within the strategy of strengthening certain areas of the bank, such as investments in start-ups linked to financial services.

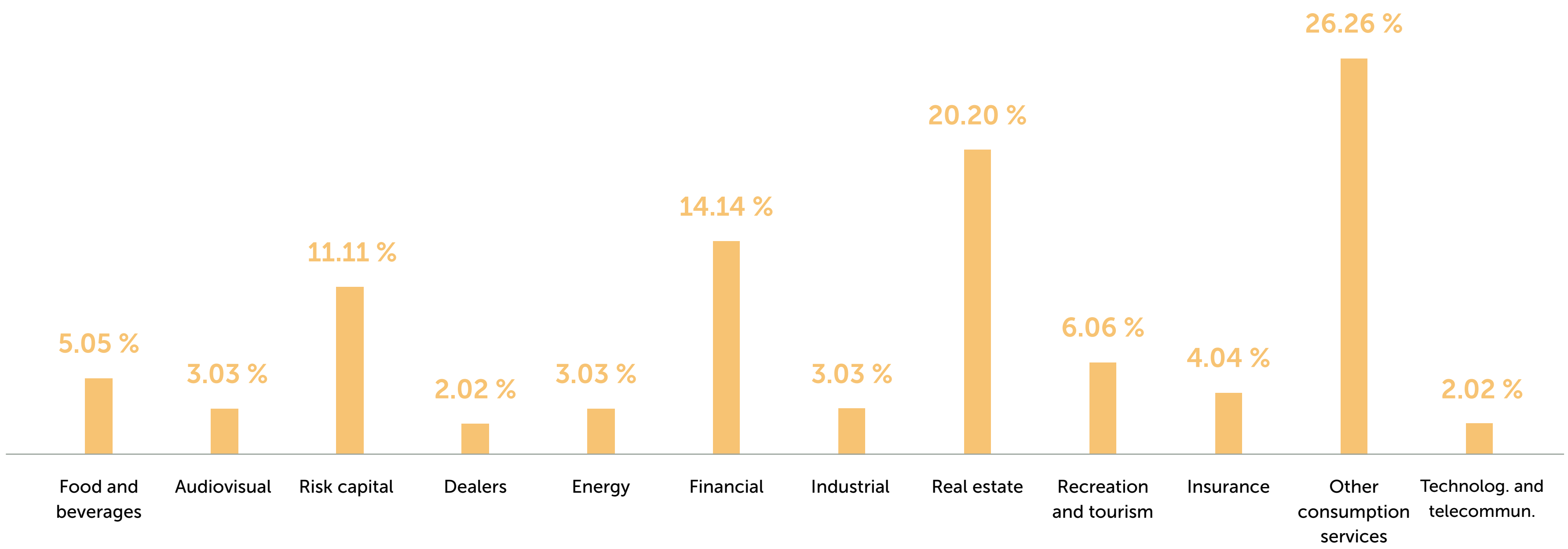
On the other hand, the ISO 9001 and ISO 14001 certifications have been successfully renewed in the companies ABANCA Gestión Operativa and Espacios Termolúdicos.

Likewise, steps are being taken to launch a new investment banking service for the Group, aimed at advising and brokering M&A operations for clients and non-clients of the bank.

Lastly, analyses are being carried out to implement an exhaustive internal compliance programme in the companies ABANCA Gestión Operativa and Sogevinus, similar to the one implemented the previous year in Espacios Termolúdicos.

As of 31 December 2019, the ABANCA Group maintained a portfolio of consolidated investee companies present in various sectors.

Percentage distribution of investees according to activity sector in 2019



SUSTAINABLE finances

103-2, 103-3, FS7, FS8, FS10, FS11

At ABANCA, we support sustainable growth by financing renewable energy projects, supporting responsible investment and promoting innovation and the development of new technologies.

Within its support to the local productive framework, ABANCA has capital participation of 20 % in four wind farms of the Norvento group.

Financing of sustainable projects

We support the development of renewable energy, the most efficient use of energy and help our clients in the transition towards a low CO_2 emissions economy.

At the same time, it has contributed to the financing of renewable energy production infrastructures in the amount of €517 million.

Financing with interaction on environmental issues (millions of €)

Activity sector	National	International	Total
Wind	144	20	164
Solar	240	12	252
Mini-hydro plant	92	0	92
Biomass	9	0	9
Total			517

We also participated, in 2019, in syndicated loans with Environmental, Social and Government (ESG) criteria, signing operations worth USD 40 million.

ABANCA, within its active role in creating a sustainable economy, has marketed multiple financing products with the direct purpose of sustainability in the field of:

1

The Home

- Through loans to individuals for home renovations to improve energy efficiency, the use of renewable energy or improvements in sustainability. It is a line within the financial offer of the Activamos Plan (collaboration agreement between ABANCA and the four Galician councils, the main objective of which is to contribute to promoting the social and economic development of the community).
- Through homeowners' associations, with financing intended to maintain or improve the security of the building, its accessibility, the installation or modernisation of the lifts, the implantation of installations for energy saving and thermal insulation, as well as improving habitability, sanitation and tightness of community facilities.

2

Mobility

Financing the acquisition of efficient vehicles: hybrid, electric, etc. (within Plan Activamos).

ABANCA **Mar**

3

The Fishing Sector

Through financing investment projects of the European Maritime and Fisheries Fund (EMFF), which subsidises, among others, investments that contribute to saving energy or reducing the impact on the environment, including waste processing. And also grant advances for sustainable investments in the fishing field.

ABANCA **Agro**

4

The Agricultural Sector

Through financing for improvement in energy efficiency, substitution of conventional energy for biomass and other alternative energies, improvement in waste treatment, reduction of CO_2 emissions or energy-efficient vehicles, all in the scope of agricultural activity.

Socially responsible investment

ABANCA's commitment to socially responsible investment (SRI) presents several lines of action:

1

Investment

The process of analysis and investment of our SRI products combines financial criteria with criteria (ESG) when selecting the assets in which it invests.

ABANCA currently manages the "Alpha Responsable" investment fund, the essence of which lies in the fact that the client's portfolio is exclusively made up of a selection of investment funds, from the best international managers, which meet criteria of environmental sustainability, social commitment and ethics in governance (ESG). With its launch in April 2019, we respond to the increasing attention paid to these issues by society as a whole, and therefore also by our clients.

2

Investment with social impact

ABANCA collaborates with a significant number of entities, associations and institutions to support different initiatives with social impact.

I Sustainable finances seminar.

Dissemination on matters of sustainability

We collaborate and participate in the creation of initiatives that help boost sustainability, such as:

1

I Sustainable finances seminar

Held in A Coruña on 21 October 2019 and with the participation of Margarita Delgado, deputy governor of the Bank of Spain, and Ana Martínez, vice-president of the CNMV (Spanish Securities and Exchange Commission).

2

Seminar "Towards a Sustainable Society"

Francisco Botas, CEO, took part in the seminar "Towards a Sustainable Society", an event that brought together renowned experts in economics and development in Madrid to reflect on the transformation of the current socio-economic model towards a more sustainable paradigm.

Analysis of environmental and social risks

ABANCA adhered to the Principles for Responsible Banking, as well as the Commitment to Climate Action, two UNEP FI initiatives that have as a joint objective, by all the participating entities, the development of scenarios, models and metrics in order to evaluate and report on scenarios of the opportunities and risks related to climate change.

ESG aspects are key in risk analysis processes and decision-making in ABANCA's ordinary activity. In this sense, we are working on incorporating the conclusions of the work carried out by UNEP FI since 2017 into our Risk Management area, and which has been reflected in two guides, the first focused on the risk of transition (*Extending our Horizons: Accessing credit risk and opportunity in a changing climate*) and the second aimed at evaluating the risks and opportunities that emerge from physical risk (*Navigating a New Climate*).

Likewise, ABANCA is working on the implementation of processes for the identification, analysis and evaluation of these types of risks. And in the development of a Sustainability Framework and Sector Policies that include the criteria for the analysis of the environmental and social risk of the activities of our clients. Especially to accompany, in a more adequate and orderly manner, those who operate in sectors considered "sensitive" in the transition process.

No direct environmental risks related to ABANCA's activity have been detected, therefore no specific provisions associated with said risks have been established.

ABANCA Digital

103-2, 103-3, FS13, FS14

ABANCA Digital aims to provide customers with an innovative service, an optimal omnichannel experience with agile processes and high levels of quality and with the possibility of contracting products and services without having to go to the office.

Growth of ABANCA Digital in 2019

29.02 %
in the number of operations.

22.18 %
in the weight of the transactions.

Contracts

45.6 %
digital contracts (2017-19).

TOP 3*
of banks with the best digital experience.

Mobile Banking

ABANCA's mobile banking application, developed entirely in Galicia and free, is among the highest rated by users of financial institution apps, according to the impartial opinion of thousands of clients who have downloaded the app and have left their rating in the official app stores of Android and IOS terminals.

\+ 43 %
increase in clients connected to mobile banking (2017-19).

x 2
duplicated interactions with clients in mobile banking (2017-19).

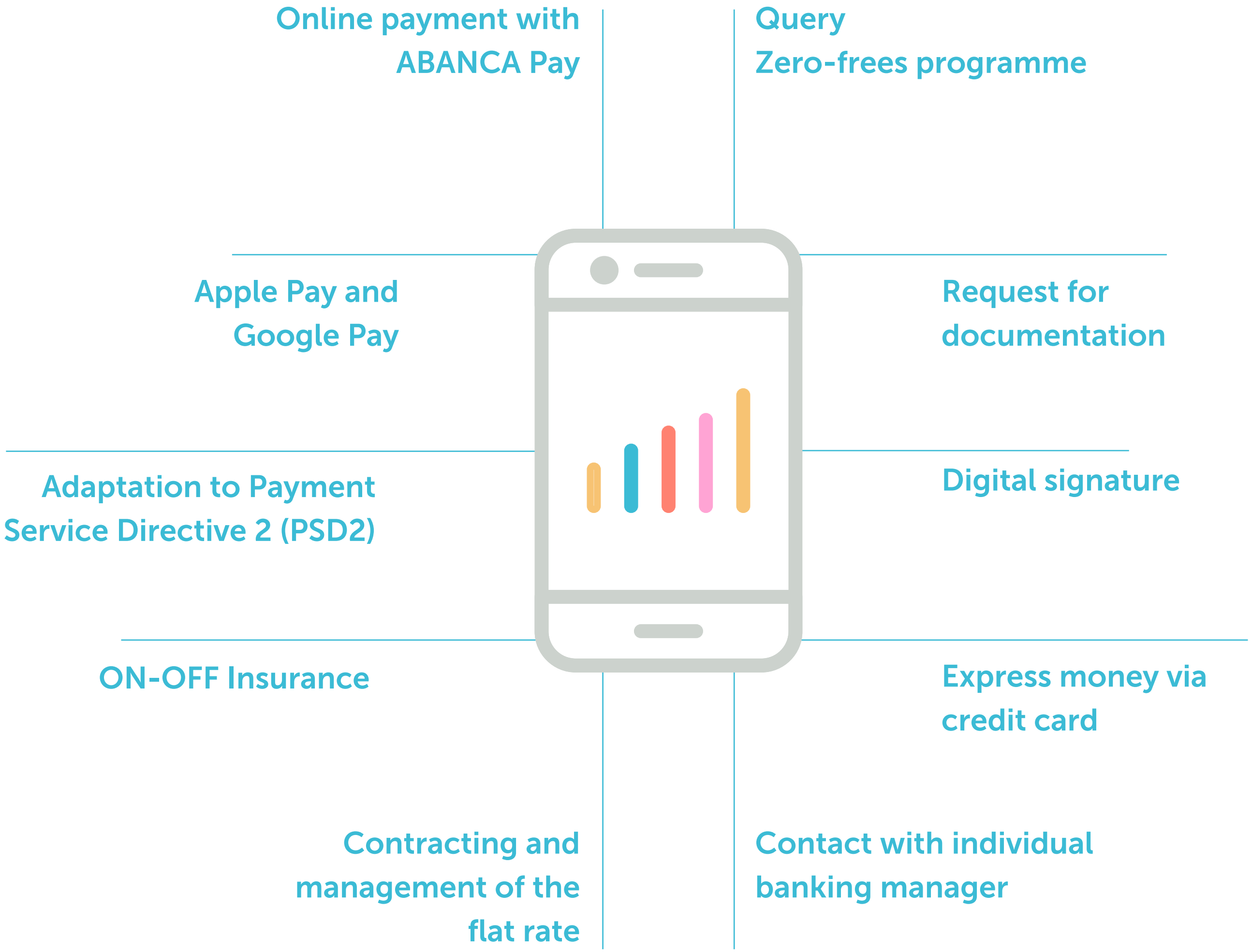
Google Play	43,400 ratings.	Average rating ★★★★½ 22 % give it ★★★★ 63 % give it ★★★★★
App Store	56,700 ratings.	Average rating ★★★★½

/* In the ranking of traditional banks, according to an independent study by D-Rating, a firm specialised in analysing digital solutions.

The main new developments that have been made available to users of the ABANCA App in 2019 include:

Electronic banking

In line with our corporate values and more specifically with quality, ABANCA has had quality management system certification since 1996 due to its electronic banking service for individuals, electronic banking for companies and mobile banking for individuals in accordance with the requirements established by the UNE-EN ISO 9001: 2015 standard. This certification, renewed year after year through a demanding external audit process carried out by AENOR as a certifying, accredited and independent entity, is tangible evidence of our capacity for continuous improvement and also our permanent commitment to provide products and services with high quality standards that seek to satisfy the needs of our internal and external clients.



RESPONSIBLE business

417-1

ABANCA focuses its activity on traditional, prudent, close and customer service banking, placing individuals, SMEs and self-employed persons as the groups that make up the fundamental pillar, offering them products and services that are simple, transparent and suited to their needs.

ABANCA has a commercial communication policy that includes all the recommendations that the Bank of Spain has communicated to financial institutions. Its purpose is to establish general principles to guide the preparation of commercial communications, as well as to collect the criteria and procedures that must be followed to ensure that ABANCA complies with the regulations applicable to its advertising activity and detect possible breaches of the same.

ABANCA is adhered to AUTOCONTROL (Association for the Self-regulation of Commercial Communication), a non-profit association established in 1995 and the objective of which is to contribute to making advertising a useful instrument in the economic process, ensuring respect for advertising ethics and the rights of consumers, excluding the defence of private interests.

According to a certification issued on 27 January 2020, AUTOCONTROL states that ABANCA maintained its status as an associate during the year 2019, complying with the ethical codes in all its advertising communications. (103-2).

Quality

103-2, 103-3, 416-1

Quality is one of the corporate values on which the entity's future progress is based. At ABANCA, quality is a shared responsibility that is supported by three basic pillars:

1. **Encourage** the use of quality management systems.
2. **Excellence** in management and orientation towards results.
3. **Know** the needs of our clients and **improve** their satisfaction.

ABANCA has:

- a **quality policy,** where our commitment to continuous improvement and the promotion of best practices in management systems is shown:
- a commitment to **excellence in service.**

Certifications and seals of quality

In 2019, ABANCA continued its commitment to the certification of quality management systems in order to allow us to order our commercial, management and client experience processes and serving as leverage to aim for excellence in the service provided.

Excelencia en el servicio a Banca de Negocios AENOR conform

The AENOR certificate in **"Excellence in Business Banking Service",** in force as of March 2018, shows our effort in the continuous improvement of our processes and services to be able to offer the best experience to our clients.

Excelencia en el servicio a Banca de Particulares AENOR conform

Our **commercial systematics** has become one of the first entities with a certificate from AENOR Conform in Excellence in Individual Banking Services, in force as of December 2016.

AENOR ER Empresa Registrada ISO 9001

Two of the most strategic services of the bank:

- payment methods (financial cards).
- electronic banking for individuals, companies and individual mobile banking.

Since 1996, they have had certification on their quality management system in accordance with the requirements of the UNE-EN ISO 9001: 2015 standard.

AENOR N Servicio Certificado Cartas de servicios

In December 2014, we became the first Spanish and European entity to certify through the UNE 93200: 2008 the quality of a product **(24-hour loan)** through a service letter, recognition of the excellence of the concession process of personal loans, based on transparency towards our clients, making public our degree of compliance with quantifiable, simple and unequivocal quality commitments.

CMMI NIVEL 5

Only two financial institutions in the world, and only ABANCA in Europe, have the highest quality quality rating in technology, **CMMI level 5,** which stands for Capacity Maturity Model Integration.

Quality.

Service letters

Service letters are strategic quality tools with which to communicate to our customers both the services provided and the commitments assumed in said provision:

They act as a fundamental support on the constant improvement of the entity.

1. They facilitate relations with our clients through a close, simple and transparent language.
2. They help us to define service standards and to set ambitious service quality objectives with a great impact on the client.

In addition to the letters "24-hour loan services" and "ABANCA mortgage services", the "6-day plan" was added in 2019, a multi-financing service aimed at our clients in the business segment and which was born incorporating a letter of services with the following commitments:

Improve our response times in financing operations, in a maximum of 6 working days.

Notify the progress of the operation during important times.

That when we do not comply, we respond as a result, compensating our clients.

Internal quality metrics

Measuring internal satisfaction in the execution of internal services and processes helps us to align the interests of all participants in its different phases. To that end, ABANCA uses two indexes:

50
services evaluated in 2019.

Average of
700
monthly surveys.

About
5,000
participating employees.

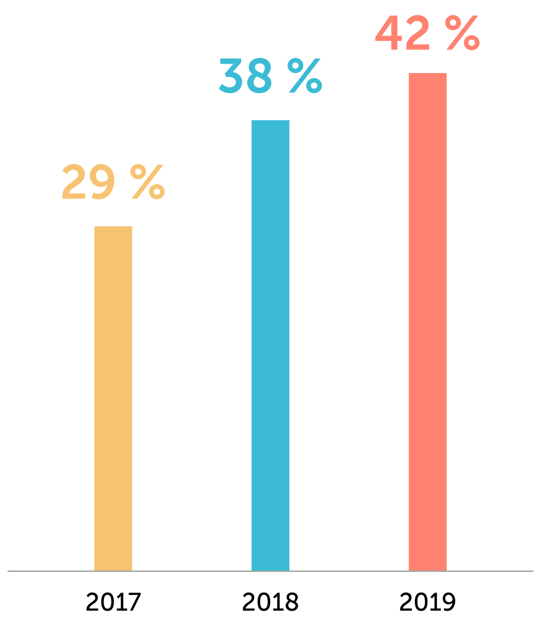
SQI (ICS)
Service Quality Index

The Service Quality Index is created using the evaluations obtained in five dimensions, evaluating the operation of the support processes, the speed of response, the absence of errors, the tools or security, among other things.

CES
Client Effort Index

The Client Effort Index (CES) evaluates the perception of the effort required to obtain a service or solve a problem, becoming a "barometer" that measures from the internal client's perception to the simplification of processes, the adoption of new technologies and tools, or greater autonomy to make decisions.

Internal services that achieve excellence in the ICS index



Client experience

102-43, 104-44, 103-2, 103-3, 416-1

Our organisation is completely customer oriented; therefore, throughout 2019, we asked more than 100,000 clients, through surveys, how they felt when contracting our products and services, what their experience was, and if they are satisfied with the use of the products and services they hired.

52 % of clients surveyed are ABANCA fans, with a net prescription rate of 35 points, three points higher than the previous year.

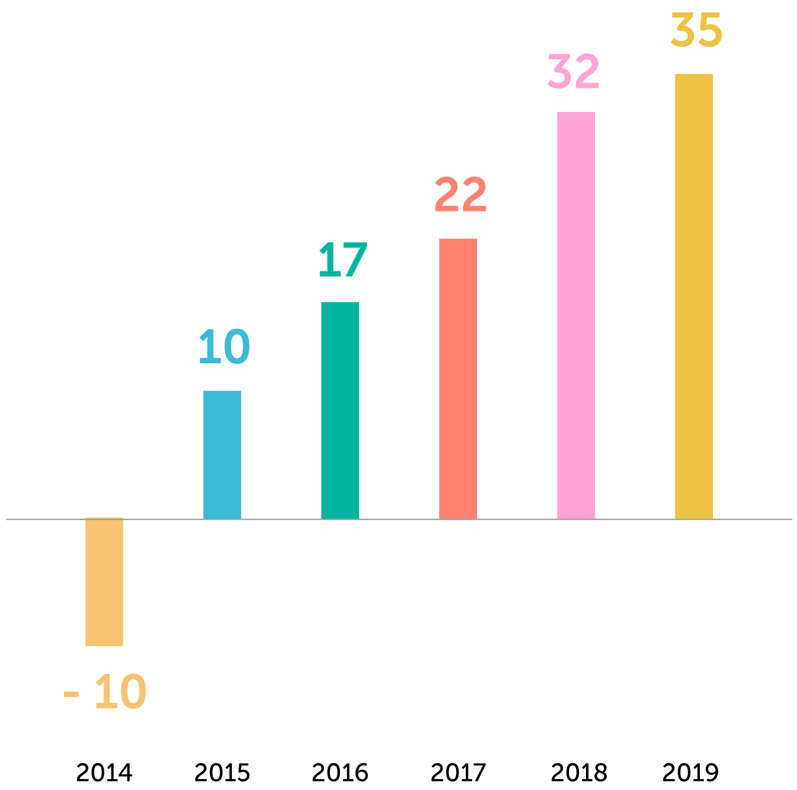
At ABANCA, we are convinced that only by listening to the client can we get to know them better and adapt more to their needs and expectations. To achieve this, we have ABANCA Escucha, our fast, reliable and real-time client experience tool.

Dialogue with our clients is constant and that is why in 2019 we launched an innovative project, Client Community, with the aim of including the opinion of the client from the beginning regarding any development of product, service and/or experience.

+ 100,000

clients have shared their experience with us.

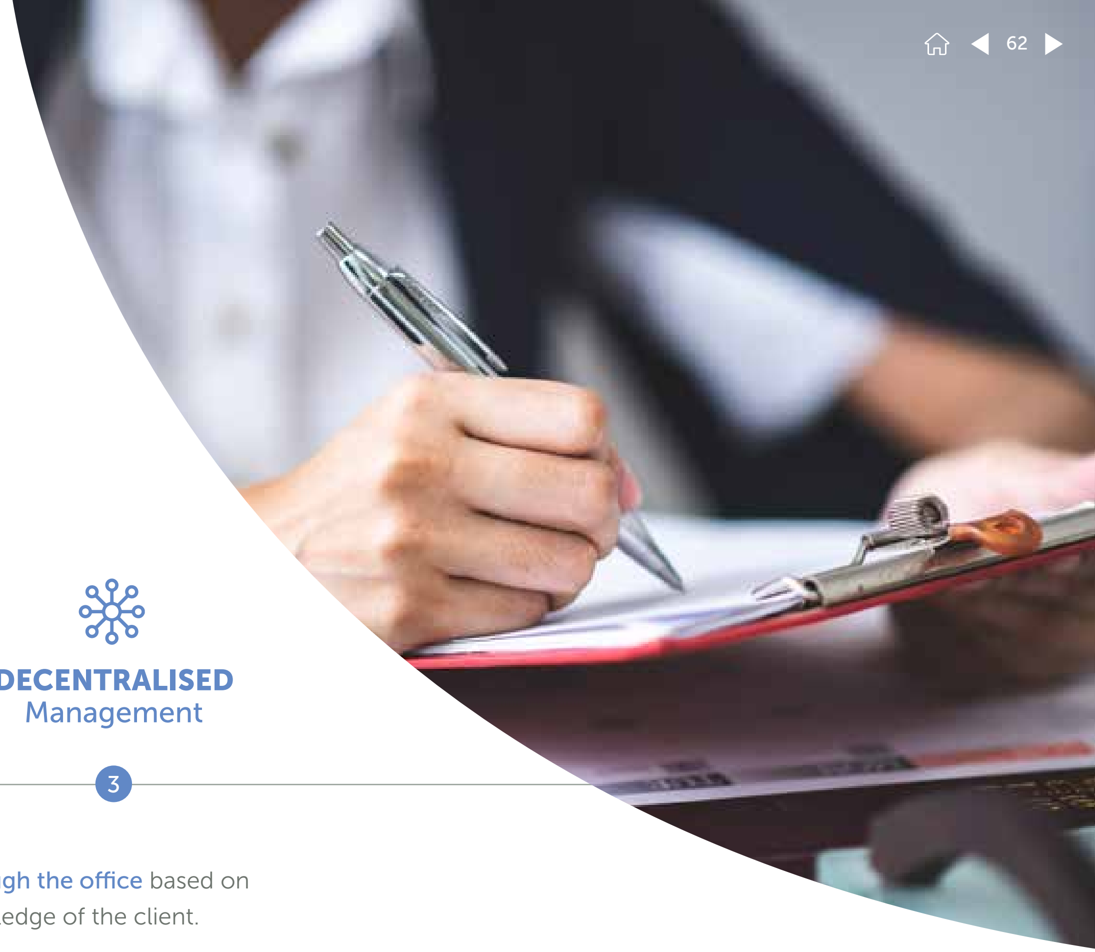
Evolution of the net prescription index (NPI)



Management of claims

102-44, 103-2, 103-3, 416-1

ABANCA's claims management policy is defined as an anticipatory model based on lines of defence, single registration and decentralised management.



LINES
of defence

1

As a result of a claim, Customer Service (CS):

- Supervises and assesses the actions of the commercial and operational areas in client relations.
- Analyses claims continuously and the underlying causes.
- Transfers the results of the analysis to the board of directors.

SINGLE
registration

2

On all claims.

On the underlying causes.

DECENTRALISED
Management

3

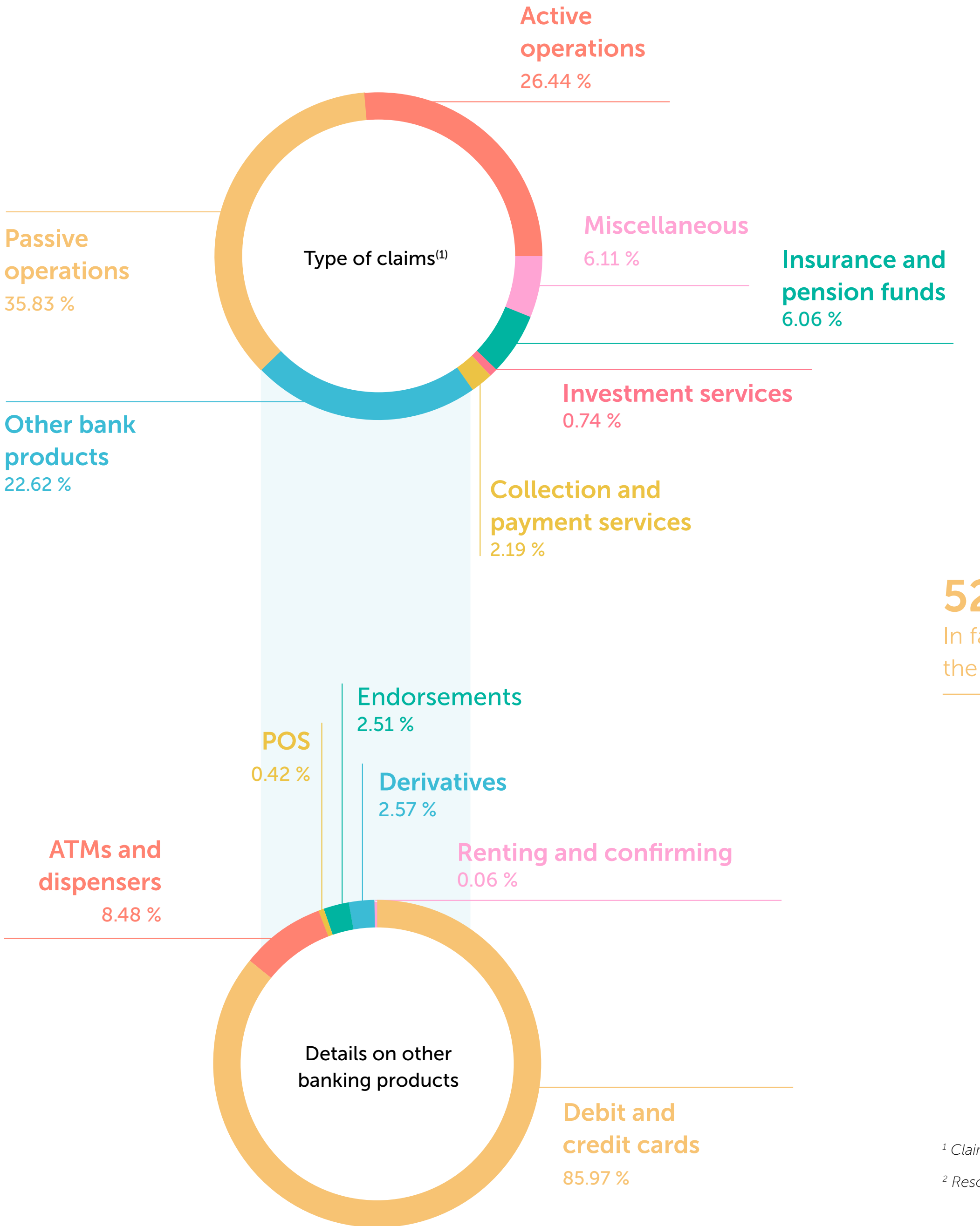
Through the office based on knowledge of the client.

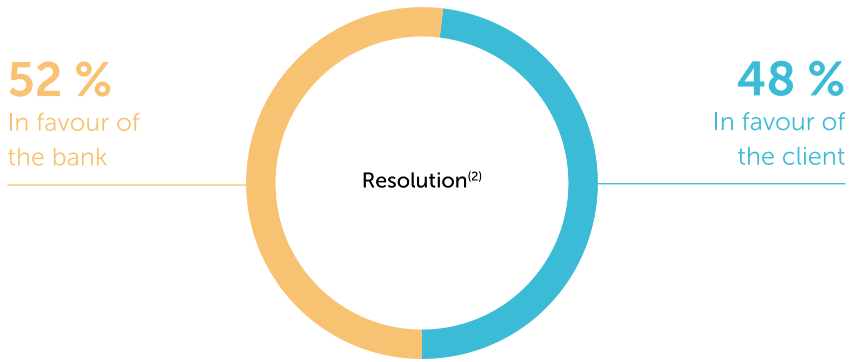
From CS on those that could not be sufficiently resolved in the scope of the office.

As of 31 December 2019,

94.6 %

of claims received were resolved.





[1] *Claims at first instance and admitted for processing.*

[2] *Resolution of claims excluding those of Banco Caixa Geral.*

RESPONSIBLE purchases

102-9, 204-1, 412-1, 103-2, 103-1

The Procurement function, integrated into the General Finance Directorate through the Efficiency and Procurement Directorate, is mainly governed by the procurement standard and the supplier policy.

Procurement Standard: It details the supply procedures that involve payments to suppliers and is mandatory for the entire organisation. Certain noteworthy aspects of the standard are:

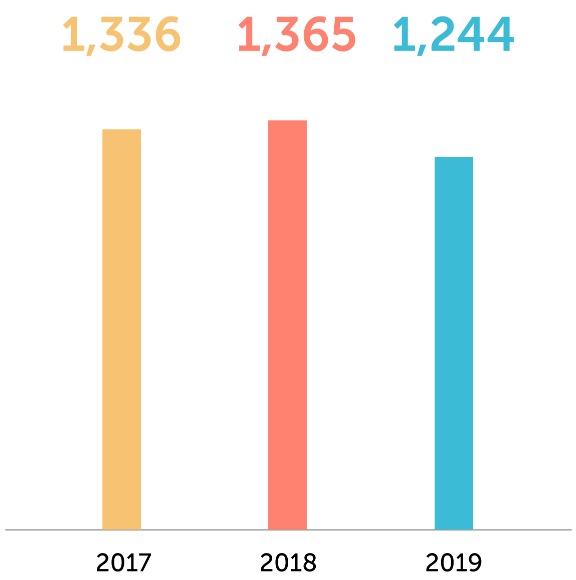
- Centralisation of functions in a single specialised area.
- Relationship with the supplier based on criteria of continuity and reciprocal interest.
- Supplier information, approval and evaluation that are kept up-to-date and with full traceability guaranteed by the centralisation of the process and the use of the integral IPRO tool.
- Purchase teams specialised according to service categories.
- Firm commitment to transparency and efficiency as the bases for the purchasing processes.

Supplier Policy establishes the management framework between the companies of the ABANCA group and their suppliers, governed by the principles of ethics, transparency and regulatory compliance, which in 2019 was reinforced by the Supplier Approval Procedure (incorporated in the ABANCA process map).

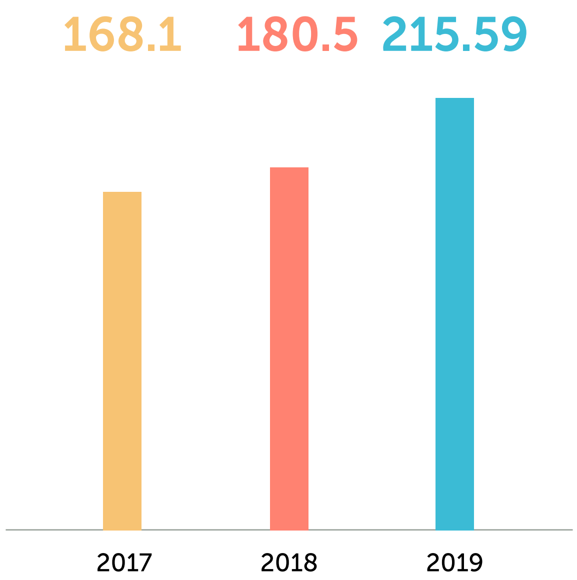
€215.59 M

in total invoicing.

No. suppliers



Total invoicing
(millions of euros)



During 2019, the procedures for evaluating risk criteria in the contracting processes in relation to the risks of technological security, data confidentiality and business continuity have been improved. Likewise, the outsourcing policy has been adapted to the guide EBA/GL/2019/02, which establishes the operating rules applicable to the outsourcing of activities and cloud services.

1,244[1]

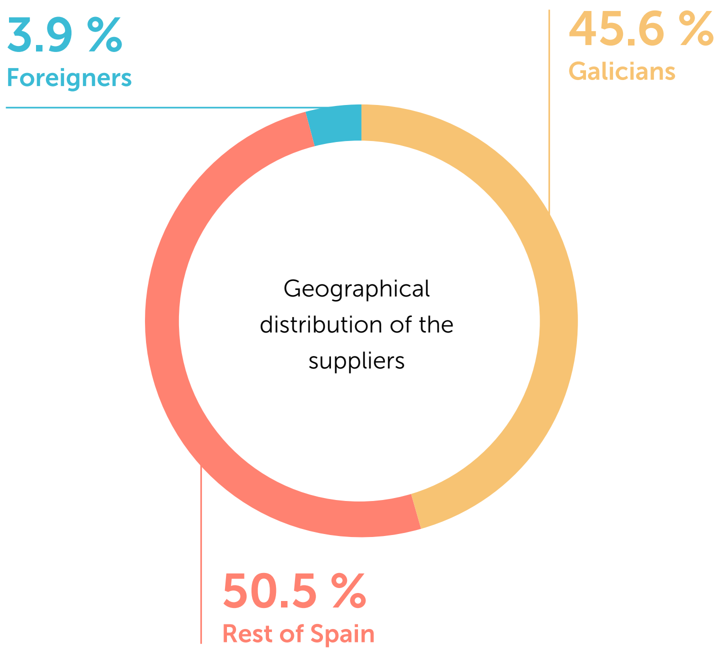
suppliers

(1) *The supplier data correspond to legal entities hired by the Procurement area for ABANCA and its financial investees. Supplies are not included. In the case of Banco Caixa Geral, the Procurement area is working on its integration.*

Approval and responsible behaviour by suppliers:

203-2, 308-1, 308-2

ABANCA, through the Procurement area, maintains an updated register of suppliers on the purchasing platform. Through the approval process, the suitability of the supplier to provide services or supply goods to the ABANCA group is comprehensively evaluated. This approval is reviewed periodically.



In their registration, suppliers must provide the necessary documentation to evaluate the different aspects considered in the approval, including:

- **Solvency and financial reliability**
- **Incidents and previous experience as a supplier of ABANCA.**
- **Existence of certifications.**
- **Connection as a client.**
- Qualitative aspects, including **concentration, reputational, environmental, ethical and behaviour-related risks.**

The invoicing of foreign suppliers is
3.94 %

Diversification of providers
71.22 %
with invoicing < €50,000.

Suppliers are required to make commitments and exhibit behaviour in line with those of ABANCA, with practices that are also based on ethics and transparency; compliance with legislation and the declaration of its commitment to adhere to the good practices and principles established by ABANCA in its Anti-Corruption Policy and in its Code of Ethics and Conduct of suppliers that guarantees compliance with the Principles of the Global Compact. These include:

ABANCA requires its suppliers to state their compliance with the social rights established in internationally recognised labour provisions, which:

1. Prohibit forced labour and the mistreatment of employees.
2. Guarantee the absence of child labour.
3. Prohibit all behaviours of assault or abuse.
4. Prohibit any type of discrimination in the scope of labour.
5. Respect freedom of association and the right to collective bargaining.
6. Guarantee a decent salary according to established conventions.
7. Provide employees a safe and healthy working environment.

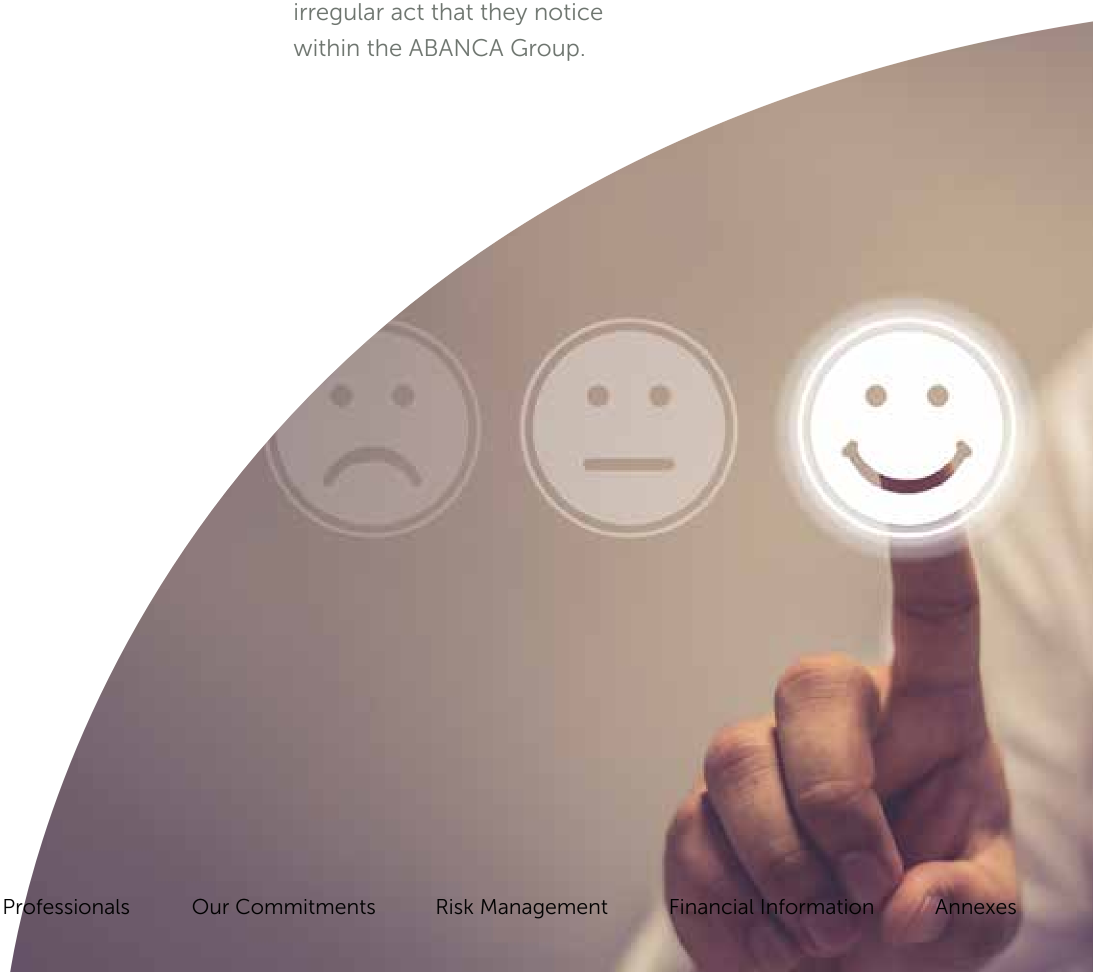
ABANCA requests that its suppliers show a clear **commitment to complying with environmental policies.**

All ABANCA suppliers must be committed to acting transparently and honourably in all relations with ABANCA and other clients, avoiding any practice which may be considered corrupt or constitute bribery.

100 %

new providers evaluated according to environmental and social criteria.

ABANCA has a complaints channel through which ABANCA group providers can report any breach of the Code of Ethics and Conduct, as well as any alleged criminal act or fraudulent or irregular act that they notice within the ABANCA Group.



ABANCA Innova

Innovation is essential in an exponential world, and at ABANCA, innovation is born out of our corporate values.

ABANCA Innova was born in 2017 with the aim of launching a stable, sustainable and collaborative project that promotes emerging technologies applicable to the provision of financial services in Galicia, and is structured around three axes:

1 TECHNOLOGICAL observatory

- Partnerships with other companies to find new start-ups and technologies around the world.
- Constant research by our team concerning new trends, important news and disruptive technologies.
- Development of PoCs with new technologies coordinating teams.

2 INTRAPRENEURSHIP programme

With the methodology of Adobe Kickbox two calls have been developed for the programme to which employees have submitted 400 ideas; there have been 50 participants and a total of 4 ideas are in the execution phase.

3 PROGRAMME for start-ups (Open innovation)

Aimed at fintech, insurtech, regtech and sybersecurity start-ups. In September, the 3rd edition was launched in which we offer training and mentoring, proof of concept and other benefits, such as presence in the media, Amazon web services, co-working, etc.

Responsible

professionals

Responsibility of one of the main pillars of management at ABANCA. A bank of people for people, where the responsibility, talent, professionalism and high level of commitment of all the people who work at the bank are the foundation and guarantee of a successful project.

At ABANCA, we strive every day to be a high performance organisation. An entity that manages to be profitable in a sustained manner over time, relying on the daily actions of the team of professionals who are part of the ABANCA Group.

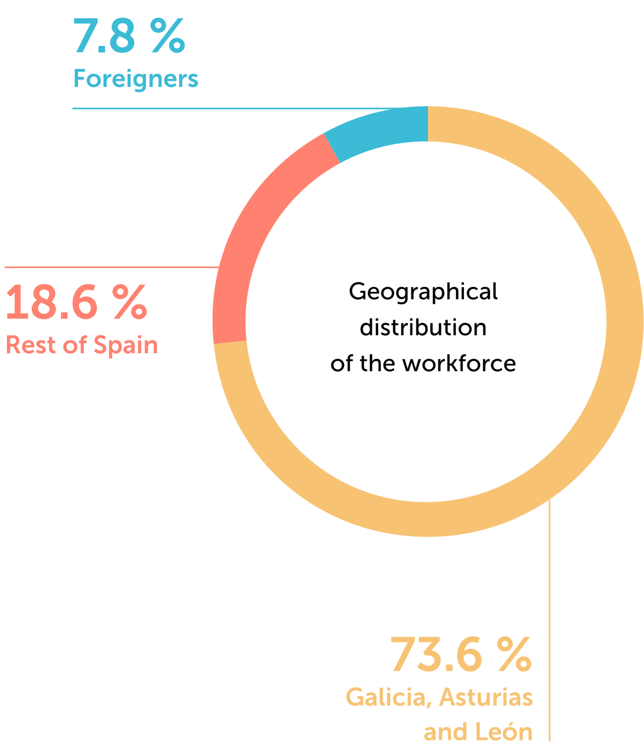
5,788
professionals.

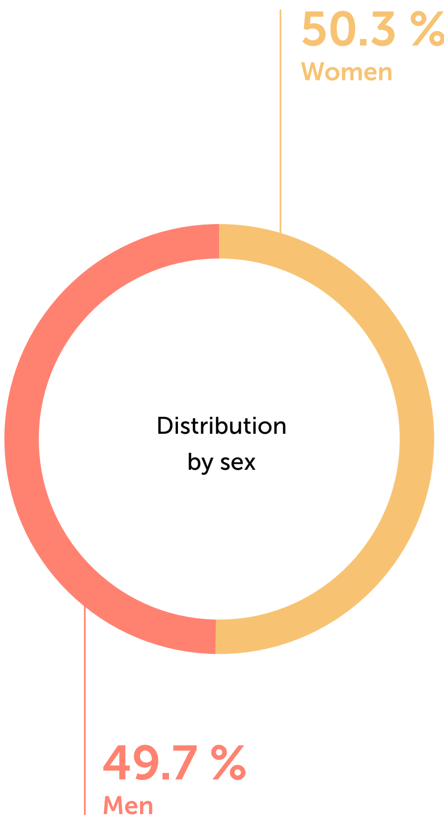
96.3 %
indefinite contracts excluding interim.

99.6 %
with collective agreement.

Average age
43.7 years

Average seniority
15.7 years

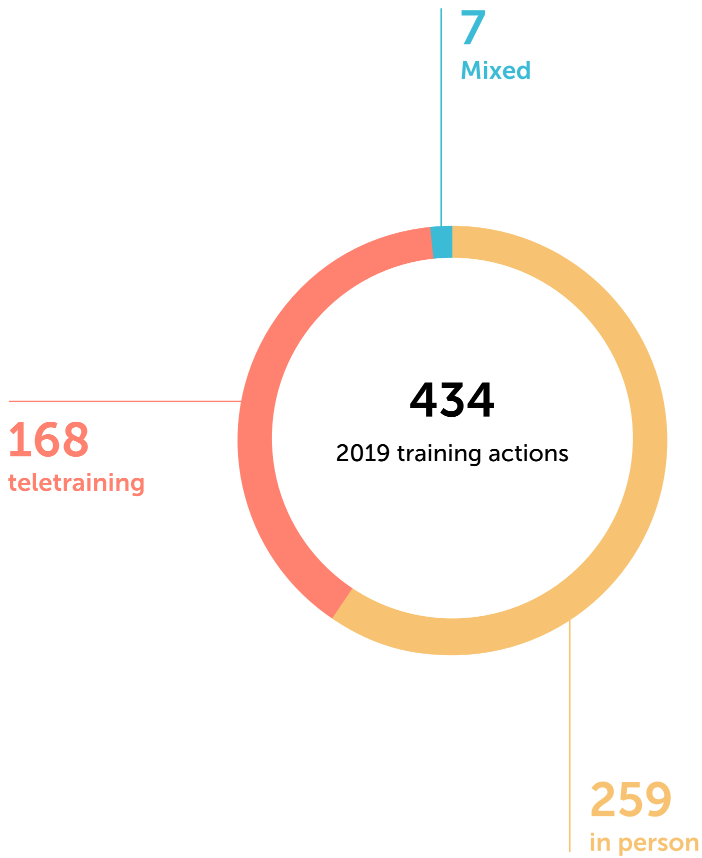




TRAINING

103-2, 103-3, 404-2

In 2019, ABANCA has a ratio of 50 hours of training per employee and, with an investment of 1.8 million euros, a ratio of €303.42 per trained employee.



2019 Professionals trained

5,683
professionals.

91.2 %
of the workforce.

+ 45 %
training actions
with respect to 2018.

Satisfaction average

The obligation to certify knowledge and skills introduced by the **MIFIDII regulations** in 2018 for the provision of investment services was added in 2019 to accredit the capabilities of professionals who design, market or sanction **Residential Real Estate Credit (LCI) operations;** it is an obligation introduced by Law 5/2019 of 15 March. To respond to this requirement in June 2019, at ABANCA we launched a training plan that must lead us to having all of them duly certified before 16 June 2020.

Another important challenge is to train ABANCA staff to face risks related to technological security, in order to guarantee the protection of our clients' data. Training plan:

- training pills,
- awareness-raising seminars,
- training courses,
- and response tests against the most typical attacks.

LCI Training

1,463

certified professionals.

Certified

43.05 %

of professionals of the mandatory scope.

MIFID II Training

2,707

certified professionals.

Certified

94.43 %

of professionals of the mandatory scope.

On the other hand, we have carried out two training sessions for the bank's system administrators, aimed at incorporating the best practices in protection against attacks and effective incident management, through which 64 specialists from our Technology and Security areas have attended. The entire senior management of the entity has received training in the matter to promote proper governance.

Finally, we understand that this area of cybersecurity goes beyond the professional sphere and enters fully into the family sphere of employees, due to which, in the course of the plan, we have carried out 4 family seminars, in which in a playful and practical environment, mothers and fathers along with their children learned how to protect themselves from the most frequent risks in the use of their devices, social networks, etc.

The training service has had to significantly increase its capacity to meet the needs of the integrations of the Deutsche Bank subsidiary in Portugal, that of Banco Caixa Geral and the internalisation of the life insurance company.

By content, attention to the growing training requirements imposed by the different regulations governing our activity has meant the greatest dedication to training, with 55 % of the shares in training actions. In addition to this notable requirement, the service has been able to meet the demands for improving the technical capabilities of the workforce (27 % of the shares), and supporting the training required by the entity's strategic and transformational projects (18 % of shares).

CULTURE and management of change

103-2, 103-3

In recent years, we have left our mark, we have specialised, we have been trained and we have strengthened ourselves. Now it's time to get moving, transform ourselves. #ABANCAsemueve is a set of initiatives that are being launched to change the way we work and the way in which we relate to the client and each other with a very clear objective: to be quicker, simpler and more cooperative.

ABIERTO Project

In 2019, we completed the ABIERTO project for our headquarters in A Coruña (Rúa Nueva and Riego de Agua). This project in central services accompanies the implementation of the new sales office model, transforming our workspaces to foster a more open and close relationship with the client in our offices, and more collaborative and agile in the corporate headquarters.

The project is centred around three axes:

1. **Working environments** that are more aimed at the client and collaboration.
2. **Provision of surface to all professionals,** providing mobility, connectivity, reconciliation and encouraging the responsible use of printouts.
3. **Persons committed** to transitioning to the more open, agile and collaborative working culture.

The result of the ABIERTO project is a 121 % improvement in the perception of satisfaction with the company by professionals who work in these spaces.

To promote change management, we work with formal leaders in the areas and also with people who acted as influencers to be agents of change in their areas of influence. This group of 77 people was dubbed PIONER@S. To promote the participation of people impacted by the project, a specific internal portal was created for the project and training was gamified for the acquisition of new skills.

The ABIERTO project, in our central services, and the new office model, in the branch network, allows us a better client experience, as well as agile and personalised attention thanks to their more functional and comfortable design; at the same time that the architectural barriers have been removed in all the refurbished centres where it has been possible to do so.

ABIERTO Project.

85 %
index of engagement of the bank.

Think tanks and intrapreneurship programmes

The significant effort made in previous years has resulted in many improvements in our processes and at least 6 new innovation projects under execution.
In the new call for the intrapreneurship programme, 143 proposals have been received, of which 22 have been selected. The people selected have been given a grant to develop their idea in the bank. The programme began in November with initial training for participants in innovation and entrepreneurship methodologies and will run until June 2020, in which participants who present the best projects will have the opportunity to prototype them with financial support and organisation by the entity. The result of all this activity carried out in recent years has placed our indicator of innovation culture at 83 %, 3 points above what we had in 2017.

Project-based work

A final pillar to enhance the entity's transformation process to focus it more on the external client and make it more efficient and agile is the expansion of project-based work, in multidisciplinary and autonomous teams and in the application of agile methodologies. In addition to the training that has been given on these methodologies, the main source of learning from them is generated with their actual implementation in the different projects in which they are applied.

83 %

our innovation culture indicator.

COMPENSATION and development

201-3, 401-2

Variable remuneration and flexible remuneration

Throughout 2019, ABANCA has gone more in depth into the objectives established in the remuneration policy approved by the entity's Board of Directors, to provide ABANCA's staff with a competitive and comprehensive remuneration package, which ensures the attraction of new talents, the motivation and retention of staff, internal equity, external competitiveness and meritocracy, while ensuring the maintenance of a solid capital base, including the capital conservation measures required of the entity.

Likewise, the entity continues to promote its flexible remuneration plan for all employees, which includes both health, family and training benefits.

The positive evolution of ABANCA's results implied a 5.4 % increase in the number of people eligible for the variable remuneration system.

Social welfare agreement

On 4 December 2019, it signed a collective agreement with 100 % of the bank's Legal Representation of Employees (applicable to ABANCA Corporación Bancaria, S.A., which represents 87.44 % of the Group's workforce) regarding supplementary social welfare. With this agreement, the previous defined benefit system has been replaced, both for savings or retirement and for risk contingencies (death and disability), with another with defined contribution for savings or retirement which balances all the groups of the bank adhered to the pension plan and unifies risk benefits for all groups, determining capital linked to the real salary of each person, also setting minimum and maximum limits for contingencies covered by the plan.

Likewise, the insured capital for each contingency of the collective life insurance policy (voluntary) of the personnel subject to the bank's collective agreement has been updated, and the possibility of increasing capital in a complementary policy has been implemented.

Future challenges for the area include efforts needing to be made to enable the voluntary contributions of the bank's staff to the employment pension plan, thus encouraging the culture of savings and social welfare for retirement. The viability of dividing up the current pension fund attached to the employment pension plan into two funds, depending on the life cycle of the participants in the plan, will also be studied, which will also allow us to obtain an improvement in the profitability of the fund throughout the active life of the workforce, adjust the risk profile of the investments to the age of each participant and promote the knowledge of the most advanced investment strategies that the bank offers throughout the entire workforce. Lastly, the Banco Caixa Geral pension system will be integrated into that of ABANCA Corporación Bancaria.

Average amount of payment of SRV

7.6 %

higher than the previous year.

Flexible remuneration

Benefits

77 %

of the workforce.

It means

€390

of average savings per employee.

SAFETY and health

403-3

With regard to Occupational Risk Prevention, the following aspects should be highlighted:

Health surveillance

At the beginning of the year, the Prevention Service launched an awareness campaign for the staff on the importance of performing a medical examination. This medical examination includes a study of the health of the person in a broad and sufficient way, since, in addition to the occupational risks to which the personnel may be exposed, other aspects of health are considered which are affected by work activity. In the ABANCA Group, due to the type of work carried out, no occupational illnesses are listed.

The Occupational Risk Prevention service has drafted Communication plan in order to raise awareness on the use of new information and communication technologies (ICT). This initiative includes a series of informational pills on different aspects related to computer fatigue, as well as recommendations to disconnect.

Prevention plan

During 2019, the prevention plan was updated to adapt it to the new needs of the organisation. The aforementioned plan is the basis of the prevention management system and the tool through which the entity's preventive activity is integrated and its occupational risk prevention policy is established.

Pregnancy, recent birth and breastfeeding protocol

In 2019, the protocol for pregnancy, recent delivery and breastfeeding became part of the procedures that make up the prevention plan, which is approved with the aim of providing the entity with a fast, effective and efficient intervention process for communication on the part of a worker of her new situation to protect motherhood against the risks derived from work.

Courses on road safety in circuits

Derived from the implementation of the mobility plan in the entity, quarterly courses on safe driving in circuits have been carried out, prioritising in the call the group of people who must perform a greater number of kilometres during their workday.

Measurements of radon gas

It should be noted that the European directive that requires the measurement of radon gas has not yet been transposed into the Spanish legal system; However, ABANCA is one of the few entities that have anticipated the coming into force of said regulations, taking measurements in 2019 in nine offices of the sales network and in the Rúa Nueva building, with the results obtained being satisfactory.

Implementation of physical activities

In 2019, a pilot is launched in the central headquarters of Vigo and A Coruña with a programme of physical activities such as yoga, pilates and TRX, the result being very satisfactory. This initiative is prior to the launch of the health and wellness platform for all ABANCA staff.

In order to guarantee the safety and health of the entire workforce, the ABANCA prevention service, in addition to complying with all the ordinary obligations established by the occupational risk prevention law, will launch extraordinary preventive actions in 2020:

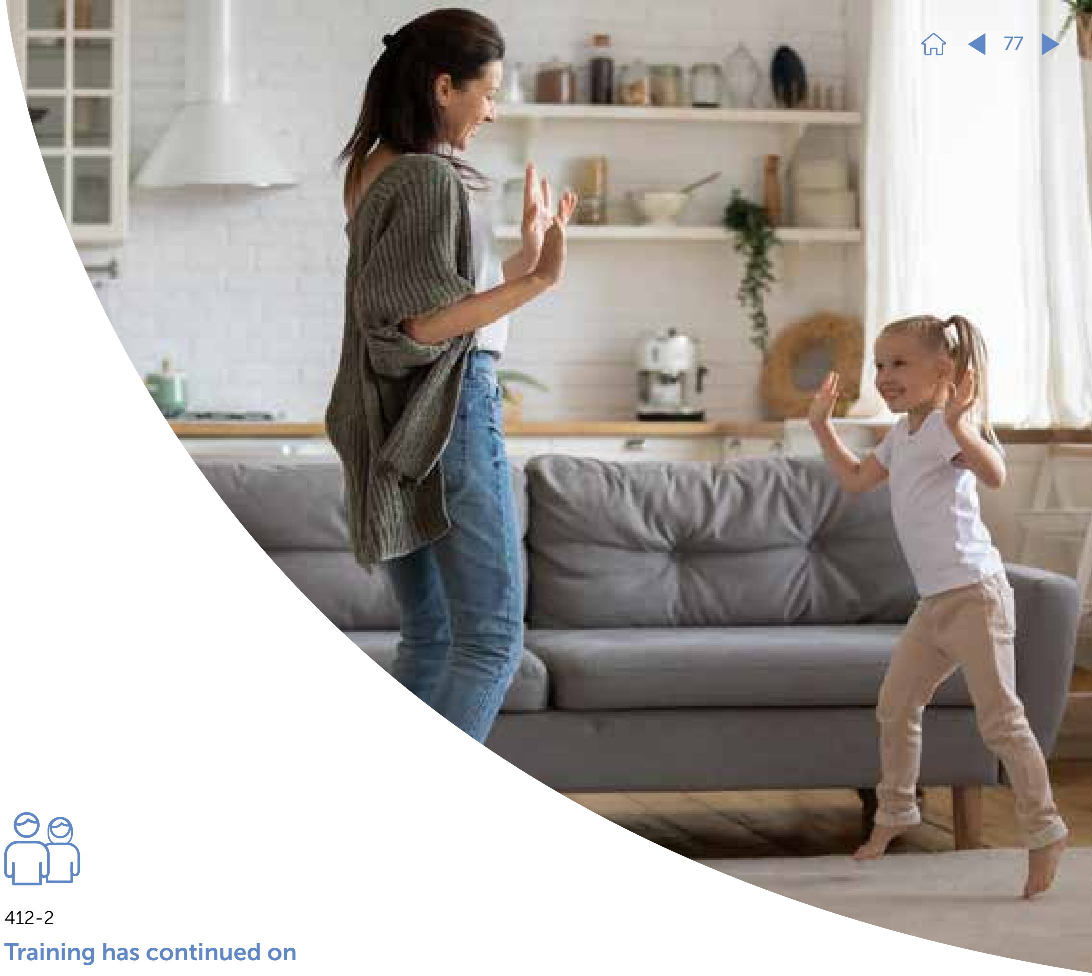
- Re-evaluation of psychosocial risks.
- ABANCA health and wellness platform, which will work on physical activity, nutrition and emotional wellness content.

EQUALITY and reconciliation policy

103-2, 103-3, 412-2

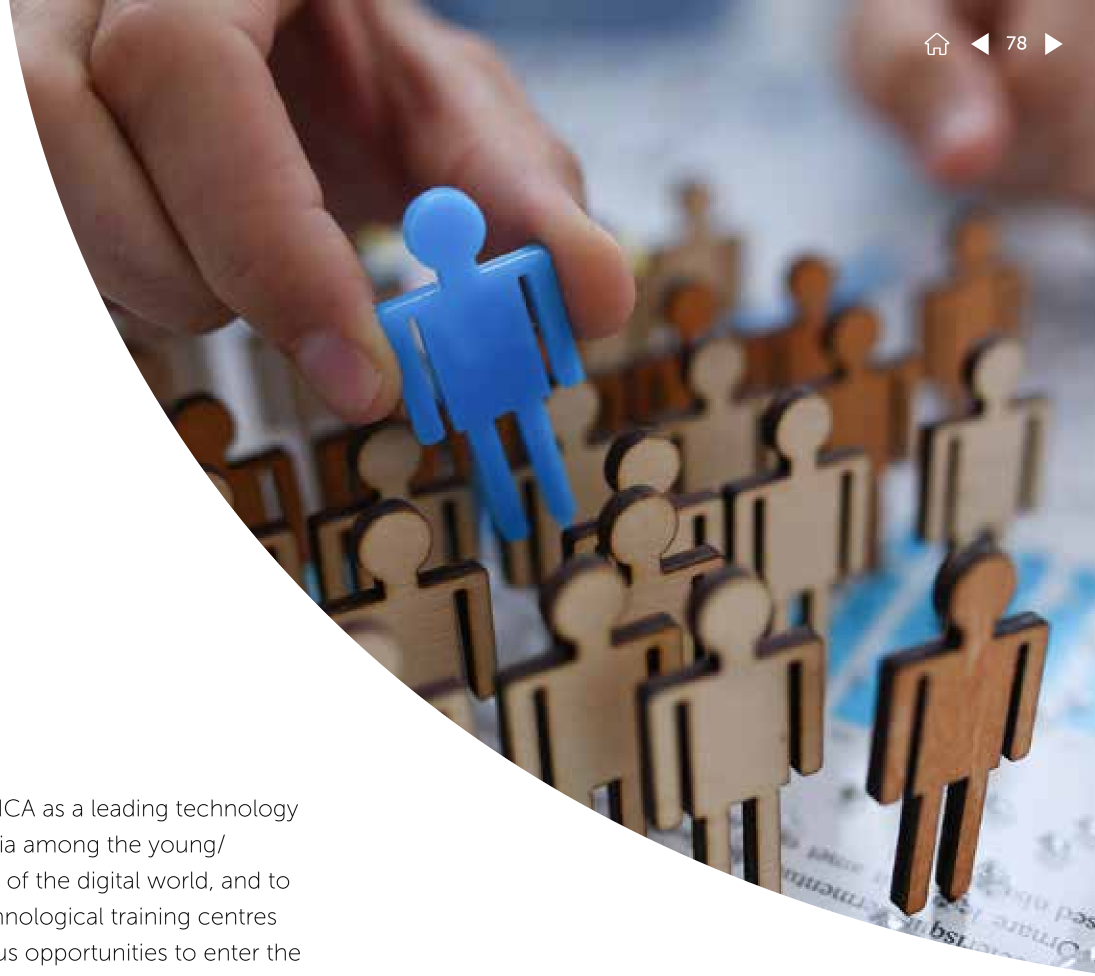
ABANCA Corporación Bancaria, S.A. has created a working environment where all people, our human capital, regardless of their gender or gender identity, ethnicity, race, sexual orientation, age, disability, etc., have the same opportunities. To that end, it signed an ambitious equal opportunities plan, approved already in early 2016 and in force until 31 December 2020, with 93.37 % of union representation and which includes the entity's commitment and its most senior leadership in equality and applying to all people who are part of this diverse and multidisciplinary team.

This commitment to equality and diversity has been reflected in actions and measures in different areas, such as selection and hiring, professional training, professional promotion, remuneration and reconciliation of personal, family and work life, which guarantee a principle of non-discrimination and an environment in which people can access, develop and contribute to the entity's objectives.



412-2

Training has continued on issues of equality with special focus placed on team managers (Management). Periodically a plan monitoring commission analyses the objectives established, proposing new measures and analysing the development of those already agreed upon.



TALENT attraction and development

103-2, 103-3

During 2019, we have continued the programmes for attracting and developing young talent with "Get moving" sessions for the incorporation of recent graduates. These seminars, which combine different activities and selection tests with a direct experience of the ABANCA ways of doing things in one of our corporate headquarters, allow a significant number of graduates (32 candidates in each day) to learn about the bank's activity and the people who make it up, while allowing the human capital team to observe how the candidates operate in the workplace, so that the selection process is enriched for both parties.

As a new development in 2019, and reflecting the criticality of talent in the technological areas for ABANCA, we have launched an innovative training programme specialised in programming that combines a month of training in Angular, as a leading environment for the development of agile and scalable professional web applications, with the possibility of signing an internship employment contract after training. This module, the 16 spaces of which were fully covered within a few days of its launch on social networks, has been the first phase of a more ambitious program, which we call "IT Force", aimed at ensuring and strengthening ABANCA's technological competitiveness in the Galician technological ecosystem. In the medium term, and with new modules geared towards different development environments and languages, "IT Force" will allow us to consolidate ABANCA as a leading technology company in Galicia among the young/student collective of the digital world, and to be present in technological training centres to offer continuous opportunities to enter the labour market.

IT Force

allows us to consolidate ABANCA as a benchmark technological company in Galicia.

2019 Promotion

409

professionals have promoted positions with greater responsibility.

90 %

of vacancies covered by internal candidates.

INTEGRATIONS and expansion

Integration Deutsche Bank in Portugal

Throughout 2019, the culture and training plan in Portugal was undertaken with all employees of that country, both those who were already part of ABANCA Portugal and those who joined Deutsche Bank, as a new technological platform was implemented.

In January, training planning and the selection of all the trainers and ambassadors of the sales network and central services that would collaborate in the project began. Likewise, the training needs and the people who would be part of the project were identified with the different areas, and the preparation of operating manuals began, involving thirty areas.

The plan consisted in five phases:

1. **Sentir ABANCA:** seeks to guarantee an emotional connection with the brand through a plan based on the personal guidance and values of the managers, taking into account the needs detected in the previous roadshow.

2. **Operational training in offices which already belonged to ABANCA Portugal,** used to detect possible rectifiable incidents in the technological integration of Deutsche Bank.

3. **In-person operational training** with reinforcement of online pills to all the staff belonging to Deutsche Bank, in order to guarantee business continuity. At the same time, people from central services stay in homogeneous areas of the ABANCA Spain structure.

4. The week prior to integration, the **80 ambassadors of the Spanish network** with ample experience and knowledge in office operations went to Portugal and distributed themselves to cover all offices in Portugal, remaining there for three weeks.

5. **The continuous training plan in post-integration** placing emphasis on insurance, companies and any other demand made by the management and business team of ABANCA Portugal. Throughout the year, work has been done to comply with all the regulatory training, validating current training and incorporating needed training.

Integration of Banco Caixa Geral in Spain

In October 2019, after months of work, ABANCA completed the acquisition of Banco Caixa Geral, the Spanish subsidiary of the Portuguese Caixa Geral de Depósito.

As a consequence of the merger, ABANCA will increase its scale through the generation of synergies and will undertake a process of integration of the workforce with significant efforts towards training.

Since the announcement of the award, teams from both entities have already worked in a coordinated manner to successfully complete the merger, the cultural and computer integration and the rebranding of the Banco Caixa Geral network that will take place in March 2020, under the fundamental premise of identifying excellence and having the resulting bank incorporate the best processes, practices and products from each entity, working from the outset with a single strategy that benefits the clients of both entities.

Our

commitments

The mission of ABANCA's Social Responsibility is to integrate into the entity's management the necessary management elements to implement a responsible business model that contributes to sustainable development and meets the expectations of its stakeholders.

OUR commitments

At ABANCA, we commit ourselves every day to achieving a more caring society, with greater equal opportunities and especially being sensitive to the most disadvantaged people. And to make it a reality, we strive to carry out our business in a responsible way and we dedicate an important part of our profit to initiatives in the educational, cultural, social and environmental fields.

These initiatives are carried out through programmes promoted both by the bank itself and by Afundación Obra Social ABANCA. Thanks to the efforts of our professionals, clients and collaborators, the activities carried out by our social action have reached a total of 1.3 million people in 2019.

1.3
million beneficiaries.

€10.1 M
contribution to Afundación.

Our commitment is a constantly evolving project open to all of society.

1

Education: we plan, undertake and advance in a project with a future because we believe in the progress of society through education.

2

Society: placing value in the vital and professional experience of the elderly as well as promoting volunteering are priority projects within our social action.

3

Culture: we are committed to culture as a source of knowledge for the development of people.

4

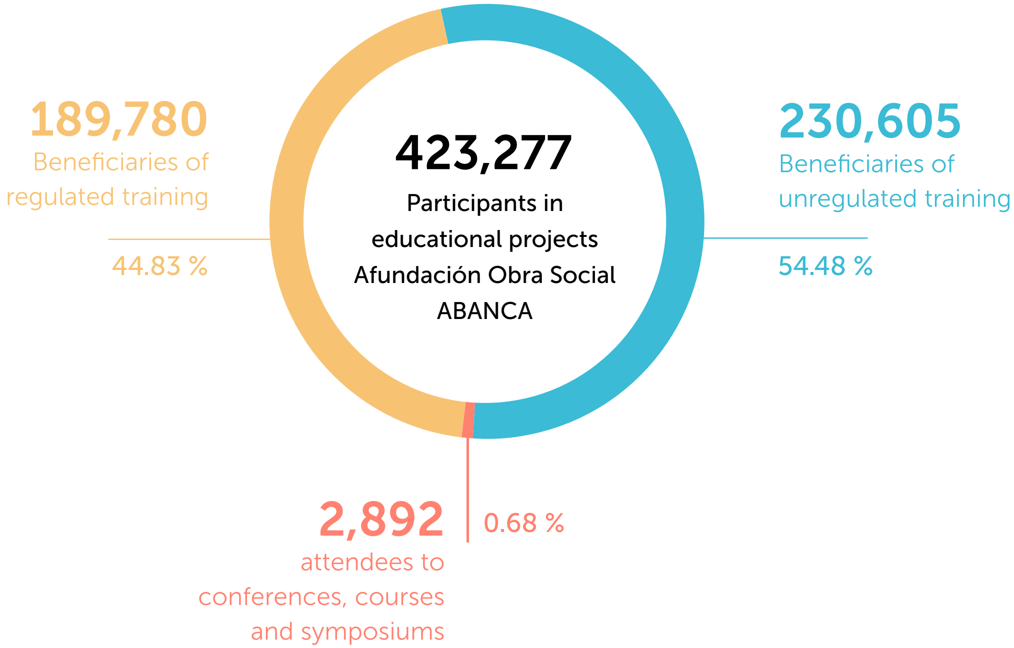
Environment: the protection of the environment and the efficient management of natural resources is articulated through the sustainability programme.

COMMITMENT to education

103-2, 103-3, 203-1, 413-1, 203-2

From Afundación, Obra Social de ABANCA, it is taken as a given that the real challenge of education is to respond to a changing environment. This challenge is faced in higher education institutions (IESIDE and the two vocational training centres) through a transformative model based on innovation, internationalisation and multiculturalism, sustainability and good training practices, among which volunteering is essential.

Afundación also carries out a comprehensive training programme taught both at its early childhood school and its network of libraries, its interactive centre for environmental education Naturnova or at its headquarters and centres, through courses, workshops and conferences that invite people to reflect and learn.



REGULATED TRAINING

- **IESIDE**
  3,989 students
- **Professional training**
  751 students
  - Colegio Hogar Afundación
  - Colegio de FP Afundación
- **Libraries**
  184,809 users
- **Escuela Infantil Afundación Zalaeta**
  92 enrolled
- **Residencia Afundación Pontevedra**
  139 users

UNREGULATED TRAINING

- **Financial education**
  22,461 beneficiaries
- **Education in values**
  208,144 beneficiaries
  - **Visual arts**
    33,556 students
  - **ABANCA ReSuena**
    293 students
  - **Performing arts**
    83,799 students
  - **Literary arts**
    1,491 students
  - **Naturnova, environmental education**
    8,005 students
  - **Online projects**
    81,000 students

CONFERENCES, COURSES AND SYMPOSIUMS

60,000
graduates.

96 %
employability rate.

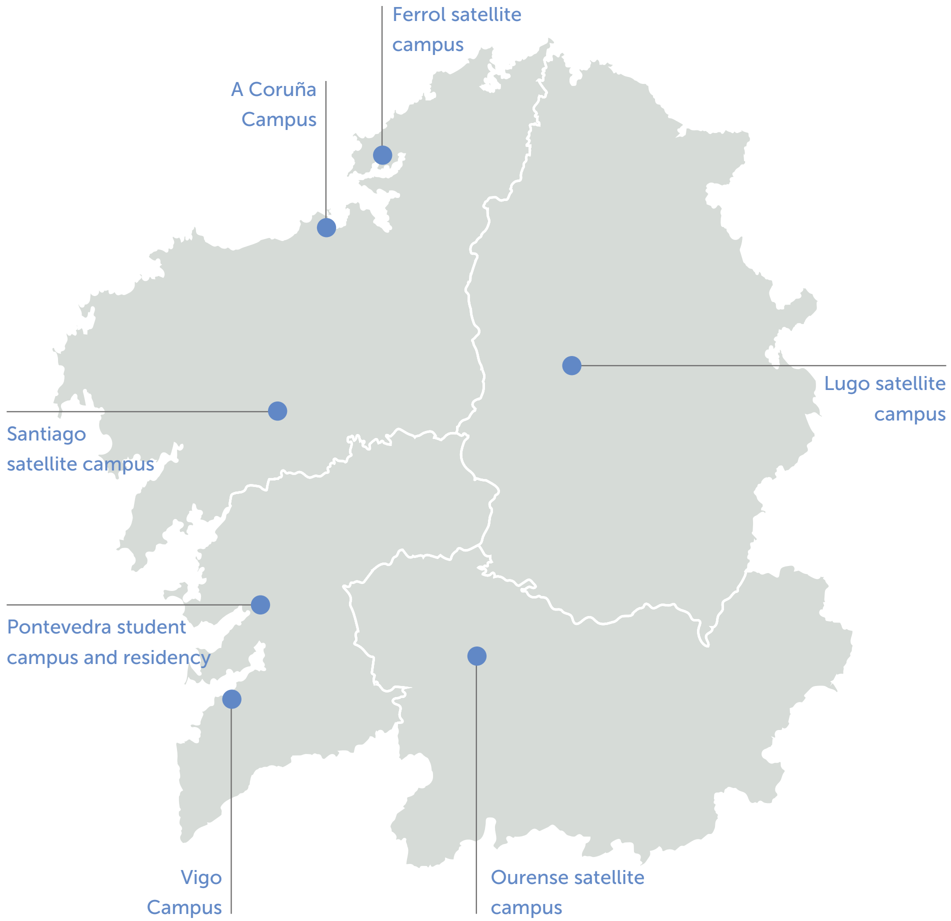
74,100 m^2
The institute has three campuses, a residence of students and a network of satellite units and additional infrastructure.

Regulated training

IESIDE

With more than 60,000 graduates, IESIDE has been a benchmark higher education institution in Galicia since 1987, with an employability rate of 96 %. It develops an academic offer with official and professional degrees that cover a wide range, from economics and finance, business management, marketing, leadership or communication to digital economics or the new approach systems of technological, information and *big data*. To this end, the institute has three campuses, a student residence and a network of satellite units and additional infrastructures that total more than 74,100 m^2 and that favour the capillarity of IESIDE in the Galician territory, a reason that has prompted the promotion of the creation of Universidad Intercontinental de la Empresa (UIE).

Sustainability is one of the strategic axes of Afundación and its sole patron, ABANCA. The actions carried out by Instituto de Educación Superior Intercontinental de la Empresa are aimed at consolidating it as a sustainable entity. In 2018, the Instituto de Educación Superior joined two global initiatives promoted by the UN to promote sustainable development and social responsibility in the business sphere: Principles for Responsible Management Education and the Sustainable Development Solutions Network. In 2019, IESIDE was the first university-level institution in Europe integrated into UNEP FI (United Nations Environment Programme Finance Initiative), as a support institution, to stimulate sustainability in all contexts related to finance and the market in which IESIDE's actions may have an impact: training, research and monitoring of current financial markets, so as to ensure sustainable finances.



Coruña delivery of diplomas.

» **Instituto de Educación Superior Intercontinental de la Empresa** in 2019 became one of the four state-level entities designated to reinforce the commitment to the Principles for Responsible Banking (PRB), which, among other institutions, was signed by ABANCA in December.

Internationalisation at IESIDE is another main line of work. In this way, the institute has collaboration agreements signed with 19 prestigious higher education centres in Europe, America and Asia, which allow the double international degree, for example, to be offered to students of the degree in BAM - BBA. To these institutions, four more are added, linked to the field of teaching and research, which act as channelers of IESIDE's training offering abroad. In 2019, three new collaborations were added with reference centres in China and the United States: California at Riverside University (U SA), Tianjin Foreign Studies University (China) and Singularity University in Silicon Valley (U SA). As a result, there are already two Chinese universities with links to IESIDE, since the agreement with the University of International Business and Economics (UIBE) of Beijing has been in force since 2016, with which the DARI programme is carried out every year, focused on the field of international relations, and which in 2019 had 25 students.

Collaboration with Singularity University drives the creation in Galicia of the SingularityU Galicia Chapter to align with the founding goals of Singularity University in Silicon Valley: train, inspire and empower people to use exponential technologies in order to address the great challenges of humanity. In the case of SingularityU Galicia Chapter, these goals are complemented, in addition, with the commitment to help improve the community both inside and outside Galicia and achieve real impact and change in the territory in which it is circumscribed.

DARI Opinions.

Global Forum Galicia-China.

Since August 2019, IESIDE has been affiliated with the Hispanic Association of Colleges and Universities (HACU). With headquarters in San Antonio (Texas), it has more than 450 important universities in the United States and Puerto Rico as affiliated institutions, as well as approximately 35 in Latin America and Spain, which establish cooperation links between

Organisations in which IESIDE is a member

PRME Principles for Responsible Management Education (United Nations).

EFMD European Foundation for Management Development.

SDSN Sustainable Development Solutions Network (United Nations).

CLADEA Latin American Council of Business Administration Schools.

Fundación Carolina.

AASBI Asian Association of International Business Schools.

HACU Hispanic Association of Colleges and Universities.

student and teacher exchanges, as well as academic collaboration.

In December, a collaboration agreement was signed with the Galician Business Association in Uruguay, which reinforces the presence of IESIDE in Latin America as one of the leading Spanish higher education institutes.

In addition, the IESIDE faculty is a reflection of the commitment to internationalisation, with 28.8 % of teachers with an international profile. This trend is also reflected among the students, who in 2019 had 166 enrolled from other countries.

Global recognition of IESIDE is based, among other differentials, on a model of renewal of education in which **innovation through digital transformation** takes on a primary role. From the centre, the constant process of updating the digital ecosystem is promoted, which places IESIDE at the forefront of the implementation of *blended* teaching models, in which the benefits of classroom attendance are combined with those of computer resources, which allow for interactive intercampus videoconferences through classrooms equipped with robotic cameras with *autotracking*, facial recognition technology and state-of-the-art room microphones. IESIDE classrooms are also equipped with a recording system, thus reaching the Advanced Type 2 IT level established by the Conference of Rectors of Spanish Universities (CRUE Universidades Españolas).

The academic and in-company training programmes carried out at IESIDE are based on an agile methodology, based on skills and structured in modules, which allow for flexible and adequate dedication to the time available in each case, distinguished by excellence, quality and a *mentoring* process focused on carrying out personalised work with each student to enhance their skills.

» **The BAM degree** is the only official international double degree given by a private higher education institution in Galicia. To qualify, students take four courses at IESIDE and a fifth at Dublin Business School, Ireland's largest private university. The Master in Business Administration (MBA), in *full-time* and *part-time mode,* is the only official private master's degree given in Galicia and it has one of the greatest satisfaction ratings for students and teaching staff for all those offered by the University of Vigo.

» **Professional masters and specialised programmes,** for their part, are at the forefront of the needs of the business sector, offering specialised training given by teachers with work experience in their respective subjects that guarantee the permanent updating of the content addressed in the classroom.

28 %

of the professors with an international profile.

166

enrolled students coming from non-EU countries.

Professional training

The main activities carried out in the two Afundación vocational training centres, **Colegio Hogar Afundación de Vigo** and **Centro de Formación Profesional Afundación de A Coruña**, seek to contribute to their mission and reason for being: to train competent students, committed to their environment and flexible to adapt to changes in the labour market. And, all this, paying close attention to innovation, internationalisation and sustainability through transformative education.

Both centres promote professional training as an educational option with high potential for society, since, after more than seventy years of experience in the preparation of middle managers at Colegio Hogar de Vigo and more than fifty years in the centre of A Coruña, Afundación is recognised as a benchmark institution in this area.

This distinction takes shape both in an increase in the number of enrolments from year to year in both centres and in the greater and better connection with the business environment that is streamlined from the two centres and which results in an increase in the percentage of employability of the students. In fact, in 2019 it was placed at 60 % once the FCT (workplace training) was finished. To this, we must add that a total of 148 companies requested training agreements with the Afundación vocational training centres last year. The sum of all these factors means that students and companies come into contact from very early stages of the training period, which favours the knowledge of mutual needs and facilitates the establishment of fluid and direct communication channels.

148

companies that requested training agreements.

Events such as the VI Seminars of "The Graphic Kitchen", the National Fair "CPRINT", the First Occupational Risk Prevention Week and all the scheduled visits to companies or meetings in the classrooms allow the training and working environment to come together.

The educational model implemented in the two centres is characterised by promoting comprehensive training based on technical knowledge and personal growth in values, for which participation in volunteer programmes in many different social spheres is encouraged. They are also encouraged to enhance their entrepreneurial spirit by organising competitions and awards that recognise their ingenuity and creativity. In addition, Afundación considers mobility, internationalisation and language learning as essential assets for a global and interconnected world like ours. The Erasmus+ programmes and Fundación Galicia-Europa Scholarships are two of the most relevant initiatives to boost student mobility. On its part, the A Coruña Vocational Training Centre implemented a bilingual section with English as a second language in 2019.

Knowledge

The headquarters and centres of Afundación host during the year receive a wide and extensive range of proposals of activities the essential purpose of which is to offer spaces to stimulate knowledge. Support for education, through nursery school and the library network, and extracurricular training activities, through courses, workshops and conferences, seeks to promote in this area as well the consolidation of the education model that characterises Obra Social ABANCA. To this end, in all these lines of action, aspects related to sustainability, volunteering, culture and intergenerational meetings take precedence.

Support to education

Foundation is a entity committed to transformative education with a comprehensive approach. In terms of knowledge, this commitment takes shape through the Escuela Infantil Afundación Zalaeta school and its four libraries, located in Santiago de Compostela and Vigo.

The children's school is a benchmark centre of education in values for girls and boys ages 0 to 3 years in the city of A Coruña, a centre where every year the 92 places offered are occupied. In the school, the schoolchildren develop their first years of learning in an environment of respect for the environment, in which activities are promoted based on sustainability, the conservation of nature and their interaction with it. They also promote volunteer actions and knowledge of traditions that allow them, from very early on, to appreciate the value of a committed society and participate in it for cultural preservation. The library network, meanwhile, welcomed more than 184,000 users at its facilities in As Travesas, O Calvario and Teatro Afundación (all three in Vigo) and the Afundación Santiago de Compostela Library is the oldest in Spain specialised in children's and youth literature.

» In 2019, more than 17,300 book loans were processed.

SPACES
for galvinisation
for knowledge

TRANSFORMATIVE
education with a
comprehensive approach

All activities are structured in four large blocks, depending on the ages of the recipients: over 55 years old, boys and girls from 6 to 11 years old, schoolchildren from 12 to 17 years old and adults between 18 and 55 years old.

936

financial education activities.

Unregulated education

In this section, the proposals for training activities are developed around training in financial, environmental, artistic and creative subjects. In addition, as a complement to all this dynamic learning programming in workshops and courses, a complete offer of conferences, courses and workshops is developed. In 2019, and in response to concerns raised by social media environments, cybersecurity workshops for youth and families were launched for the first time.

Financial education

ABANCA's Financial Education programme promoted through Afundación, Obra Social ABANCA, has the fundamental objective of bringing all citizens together, regardless of their age range, knowledge, skills, behaviours, values and aptitudes, facilitating access to training in the most important financial concepts, and allowing people to move towards more responsible behaviour in the face of the challenges that will be found throughout their lives.

Financial education activities programme in 2019

ABANCA, in the last financial year, organised 936 financial education activities that reached 103,461 people through digital channels and face-to-face activities throughout the territory.

The bank reinforced the programming and activities aimed at those over 55 years of age, to respond to one of the needs detected in the study it carried out with the aim of getting to know this group in depth and which it presented coinciding with the International Day of Seniors and Financial Education Day, in which more than 1,900 seniors participated.

The block of activities aimed at those over 55 years of age, such as the workshop "Manage your accounts with ABANCA mobile" or "Make your life easier with ABANCA ATMs", made up only part of the financial education programme developed by the bank in collaboration with Afundación throughout the last year.

Ideas for children were upheld such as the Financial Grand Prix and the *Troya* theatre performance, which 11,401 schoolchildren from A Coruña, Santiago, Pontevedra, Vigo, Vivieiro, Lugo, Logroño, Lalín, Ferrol, Ourense, León and Avilés enjoyed and which addressed the risks in the network and cybersecurity for young people.

81,000

students participated in the Segura-mente ABANCA and ABANCA Young Business Talents programmes.

Young secondary and baccalaureate students are the recipients of the other two major innovations of the programme in digital version this year, Segura-mente ABANCA and ABANCA Young Business Talents, two projects launched thanks to the agreement signed by the bank with Fundación de las Cajas de Ahorros (FUNCAS). The first aims to raise awareness in schoolchildren about the importance of preventing risks and how insurance can help us face life's unforeseen events. The second seeks to bring business management closer to young pre-university students through a simulator that allows participants to live the experience of managing a company. In both programmes, more than 81,000 schoolchildren and more than 700 schools from all over Spain participated.

The offer for this group is complemented by two workshops in the form of a conference: "Prepared to take the plunge, financial needs throughout life" and "Your finances, your future", taught by IESIDE and by retired ABANCA volunteers attended by 1,946 students.

For the latter age group, from 18 to 55 years old, another one of the new developments of this new edition of the programme stands out, the financial health "Improve your well-being" workshops, aimed at professional groups or those who may be especially vulnerable, such as what was given to the group of women workers in the fishing sector, where more than 60 members of Anmupesca (National Association of Women in Fishing) participated.

Likewise, for this group, conferences are held to update knowledge on payment methods for teachers and vocational training students.

» In addition to its own initiatives, as is customary in recent years, ABANCA maintains collaboration with programmes developed in this area by the AEB and FUNCAS sector organisations.

Segura-mente ABANCA A Guarda.

Segura-mente ABANCA Santiago.

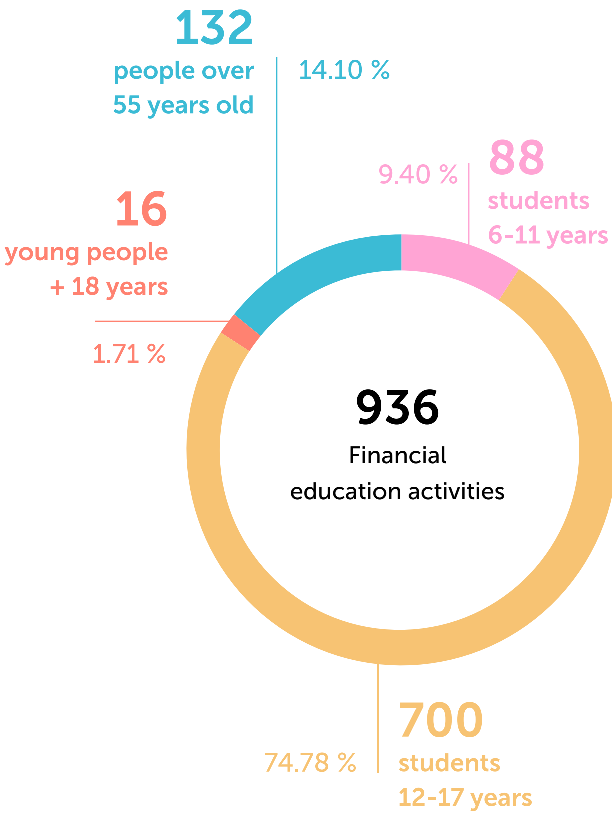
Young Business Talents.

Online actions

ABANCA has also launched the bank's blog in Cuenta Claras, the second edition of the financial competition "La Galaxia Financiera". This year they have participated in this initiative, which aims to publicise the blog's glossary of financial terms and test their followers' knowledge in the field of finance, about 800 people.

800

participants in the second edition of the financial skills contest "La galaxia financiera".



STUDENTS 6-11 YEARS

- 60 Activities Gran Prix Financiero
- 28 theatre shows from *Troya*

STUDENTS 12-17 YEARS

- 252 Activities "Segura-mente ABANCA" programme
- 384 Activities "Young Business Talents" programme
- 14 Sessions of the programme with the AEB
- 50 Conferences "Prepared to take the plunge" and "Your finances, your future"

YOUNG PEOPLE +18 YEARS

- 16 Workshops on payment methods

PEOPLE OVER 55 YEARS OLD

- 99 Workshops "Manage your accounts with ABANCA móvil"
- 11 Workshops on financial culture
- 11 Workshops on the stock exchange
- 11 Workshops on digitalisation "Make your life easier with ABANCA ATMs"

235,000

participants in educational activities.

83,000

children attended artistic performances organised by Afundación.

8,005

visitors in the Interactive Environmental Education Centre of Afundación, Naturnova.

Education in values

For Afundación, culture is, in addition to a production of aesthetic expression, a mechanism for learning and personal and social growth. For this reason, all exhibition projects are reinforced with a complete didactic programme the transversal axes of which are based on values in education and digital learning. In 2019, more than 235,000 people of all ages participated in the educational activities carried out on the occasion of the Afundación exhibitions throughout Galicia, both in the network of the institution's own centres and in spaces where plastic proposals were collected framed in the "Corrente cultural" project.

Musical training is another one of the pillars of this section. The **ABANCA ReSuena** programme and, since 2018, the Mini ReSuena orchestra, made up of young girls and boys, addresses the vision that Obra Social ABANCA has of music as a tool to stimulate learning. In the specific case of classical music, the taste for and knowledge of classical music, its composers and genres are reinforced. This initiative, in addition, helps to promote values among the participants such as effort, dedication, striving for excellence and respect for teamwork.

The dissemination of classical music among young people is also present in the programme **"Quedamos no palco, quedamos coa clásica"**. Obra Social ABANCA makes free tickets available to secondary education centres for its students to attend the recitals offered at Teatro Afundación Vigo, with the aim of influencing the value of classical music as an instrument of cultural and social development.

The scenic proposals for schoolchildren count as a common denominator, showing a noteworthy transmission of fundamental values for children and young audiences. To this, we must add multilingual programming in which the benefits of language knowledge and intercultural communication channels are enhanced. In 2019, more than 83,000 boys and girls attended the artistic performances that Afundación organised.

Naturnova, the Interactive Environmental Education Centre of Afundación, has throughout the years carried out multiple activites in which sustainability, one of the main guiding principles of Afundación, is a fundamental topic. In its facilities, visitors, 8,005 in 2019, become familiar with the different ecosystems of the Earth and thus can better collaborate in taking care of it.

Conferences, courses and symposiums

"21st century education" is Afundación's benchmark cycle of conferences. In 2019, it had relevant speakers in the fields of psychology, performance arts, education and law, such as Álex Rovira, Irene Villa, Marcelo Castelo, Laura Sarasola, José Antonio Vázquez Taín, María Jesús Álava Reyes, César Bona or Xurxo Ruíz, the latter two in meetings organised in Asturias and Castile and León. With this same informative purpose, the meeting "Education today" was organised in the ABANCA Auditorium in Santiago de Compostela, with the participation of Víctor Arufe, Teresa Domínguez, Suso de Toro and Teresa Viejo.

In November 2019, for the first time, at the IESIDE Campus in A Coruña, **cybersecurity workshops** were scheduled for primary school students in level 5 and 6, secondary school and baccalaureate students, and for families, in order to address the risks of overexposure on the Internet and social media.

Afundación, in its **culinary art and oenology courses,** increases knowledge and the correct handling of primary and seasonal products. The culinary seminars are aimed at adults, children and young people alike (the Minichefs and Pequechefs programmes), and intergenerational workshops are also held. They promote healthy habits and food sustainability that have an impact on better well-being.

Training for adults in music and art is carried out through two specific programmes at the headquarters in Vigo and Ourense which are carried out throughout the year in single-subject sessions.

21st century education.

COMMITMENT to society

103-2, 103-3, 413-1

At ABANCA, we carry out our social action in accordance with corporate values that are based on ethics and transparency: reliability, innovation, quality and responsibility.

Our high commitment to society and intense collaboration with numerous social initiatives make us an entity that develops a model of care for its environment that very few social programmes manage to achieve.

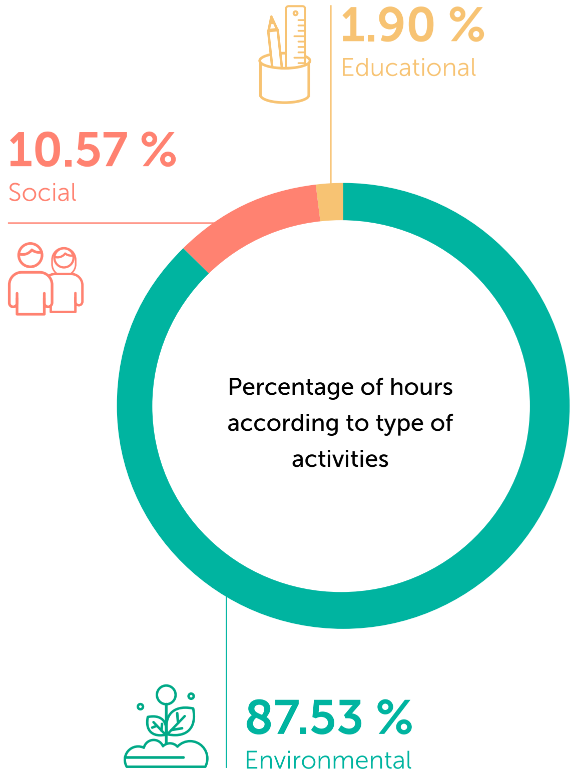
Corporate volunteering

(203-2)

At Afundación Obra Social ABANCA, we have a volunteer program made up of professionals from the entity, who are active or retired, as well as family, friends and clients, whose activities, whether continuous throughout the year or occasionally, have the objective of promoting and spreading essential values in a society: solidarity, cooperation, respect, teamwork or commitment.

We understand volunteering to be a way of expressing and channelling awareness on the environment in an altruistic and supportive way, providing selfless support to various social and environmental causes, as well as local communities in which we carry out our activity.

Throughout the year 2019, our volunteers have dedicated their time to promoting good environmental practices, financial education and support for social initiatives.



#SomosVoluntariado

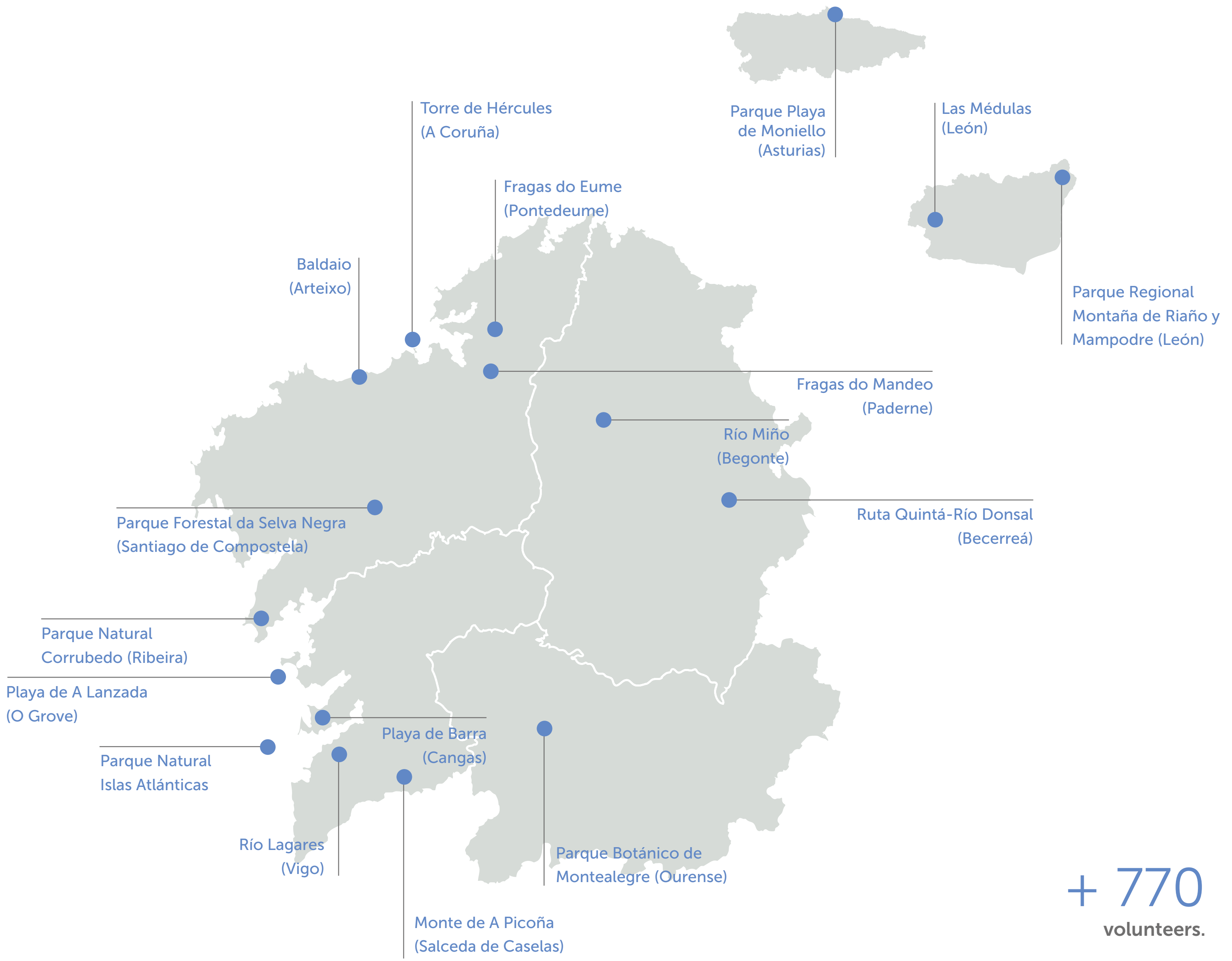
ABANCA and Afundación volunterring programme.

Homage to the volunteers.

Environmental

The reforestation of the Galician mountains, as well as the eradication of invasive species or the cleaning of forests and beaches, have occupied a large part of the nearly 4,800 hours that the more than 770 volunteers have dedicated.

» For one year more, volunteers had the technical advice of the members of **Grupo Naturalista Hábitat,** who determined the ideal species for each terrain according to their characteristics and explained to the participants the process in which each specimen should be planted, showed the species that had to be eradicated and gave the necessary instructions to carry out a correct cleaning of the areas where they worked.



+ 770
volunteers.

4,800 h
dedicated.

Educational

In the educational field, our volunteers have dedicated more than 90 hours to training in basic financial skills, aiming their activities at secondary and vocational students, as well as the elderly. Planning, responsible consumption, different means of payment or notions of financial culture were the main themes of the workshops that were given throughout the year in educational and senior centres.

Social

Social volunteering focused on activities that are becoming common within the programme. Thus, on the occasion of the Solidarity Day for Companies, volunteers from the A Coruña, Vigo and Madrid areas had the opportunity to dedicate a morning to the most disadvantaged people.

The Intercentros Festival, which brings together thousands of young people for music, dance and values, was the setting of a large food bank for charities in the city of A Coruña.

For the sixth consecutive year, the "Hope grows when shared" campaign managed to collect more than 4,900 toys that were donated to social entities in Galicia, Asturias and León, thanks to the collaboration of the volunteers who assisted the collection facilities.

On 29 November 2019, ABANCA and Afundación paid tribute to all the people who throughout the year participated in the volunteer programmes designed by both entities with a shared event held at the ABANCA Auditorium in Santiago de Compostela. In addition to recognising the invaluable boost to this type of social participation by the workers of the two institutions, the role of the Espazos +60 volunteers in the success of the actions stood out in a very special way. Actions which, in this area, amounted to more than 32,348 hours dedicated to boys, girls, young and old, with social, cultural and intergenerational actions, which in 2019 reached almost 12,168 people.

+ than 90 h

dedicated to training in basic financial skills.

32,348 h

of volunteering by members of the Espazos +60.

Volunteer event.

VI ABANCA Responsable Forum

The sixth edition of the ABANCA Responsable Forum had as its central axis the "Socially Responsible Digital Transformation"; the symposium brought together more than 60 companies that shared experiences and learned about success stories of other organisations that have managed to tackle digital transformation in a socially responsible way.

In the course of the forum, the experience of three organisations of various sizes linked to Galicia was presented: Teimas Desenvolvemento, a technology company that develops and markets *software* and *hardware* solutions for the recovery and recycling sector; TokApp, an organisation that offers messaging and payment applications with more than 500,000 users, and ABANCA Innova, ABANCA's commitment to promoting innovative initiatives in the technological field from Galicia.

The conference programme also included two brief presentations, one by Fundación Seres, a private entity that aims to promote companies to help create value and become key agents to solve social problems, and another by Mobile Week Coruña, an event promoted by Mobile World Capital Barcelona that made Galicia the epicentre of the technological debate, with more than a hundred free activities in which more than 2,000 people participated.

There was also space to learn about other projects, such as the new application to control catch quotas by Asociación de Armadores de Cerco de Galicia (Acerga); the Neta V3A project, with which Gradiant seeks to create a 100 % Galician assistance robot; the Quiero un abuelo platform, which connects older people with families with children, or the home automation project promoted by the Lugo Red Cross to improve home assistance for people living alone.

After the presentations, a group dynamic was developed in which the attendees worked on the keys to building a responsible and sustainable digital era and the challenges and opportunities that digital transformation provides.

VI ABANCA Responsable Forum.

The conclusions of the seminar included ethics and values as key to achieving a responsible digital era.

Among the main challenges faced by digital transformation, attendees indicated security, privacy and not missing out on the human factor. People should always be the focus and from there we must build a responsible digital society.

They also pointed out the opportunity that companies have to be leaders of change in ethical and responsible digital transformation.

Support in sports

All initiatives promoted by the bank in this area aim to disseminate the values intrinsic to playing sports throughout society, such as perseverance, fair play, commitment, equality, teamwork, the desire to excel and companionship.

Aventúrate

Aventúrate is a new initiative of the ABANCA Deporte Base Programme that was launched in February 2015 and which in the last four years has established itself as a benchmark in Galicia.

ABANCA decided to give a new boost to the programme to support Galician sport with the launch of the "Aventúrate" cycle of activities, in which, throughout 2019, elite Galician athletes such as Iván Raña, the sailor Sofía Toro or the tennis player Martín de la Puente participated.

The objective of "Aventúrate" is to promote meetings between athletes, the general public and young athletes, so that through the experience and knowledge acquired throughout their careers they can teach and train people of all ages through values intrinsic to playing sports and show young people that it is possible to have a successful sports career from Galicia.

The programme includes three types of activities depending on the public to whom they are addressed:

1. **Open** conferences.
2. **Meetings with boys and girls** in Galician youth academies.
3. **And a trip to an international competition** where one of the collaborating athletes participates.

One of the most relevant actions within the framework of ABANCA Deporte Base is collaboration with Fundación Deporte Galego. Thanks to this agreement, more than 18,857 athletes from 33 sport categories are supported annually, the objective of the programme being to contribute to improving the health of the entire population through the playing of sports.

AVENTÚRATE with Iván Raña.

AVENTÚRATE with Sofía Toro.

AVENTÚRATE with Martín de la Puente.

Support to the III edition of FID León

Obra Social ABANCA and Asociación Golden Dreams Team have renewed their commitment to the organisation of the International Sports Forum in León, an event that held its third edition in September, which has already become a consolidated event on the national sports agenda after the success of 2017 and 2018.

The III FID Obra Social ABANCA was held in September at the Ciudad de León Auditorium; more than 1,500 people attended along with top-level athletes, such as synchronised swimmer Gemma Mengual, pilot Laia Sanz and footballer Roberto Carlos. The high jump athlete Ruth Beitia also participated, adding fifteen medals in major championships, including an Olympic gold and bronze.

As usual, the forum developed an extensive programme of parallel activities that aim to promote the playing of sports and physical activity among citizens, as well as facilitate the meeting between participating athletes and their followers. In this regard, the activity organised by ABANCA in the plaza of the León cathedral with the Brazilian soccer players stands out, which brought together more than 2,500 people.

Active aging

Afundación's commitment to personal and social growth is reflected in the programming designed in its Active Aging Area, by promoting the participation of the +60 group in actions that reach broad sectors of the community through volunteer projects of an intergenerational nature and in education proposals for adults.

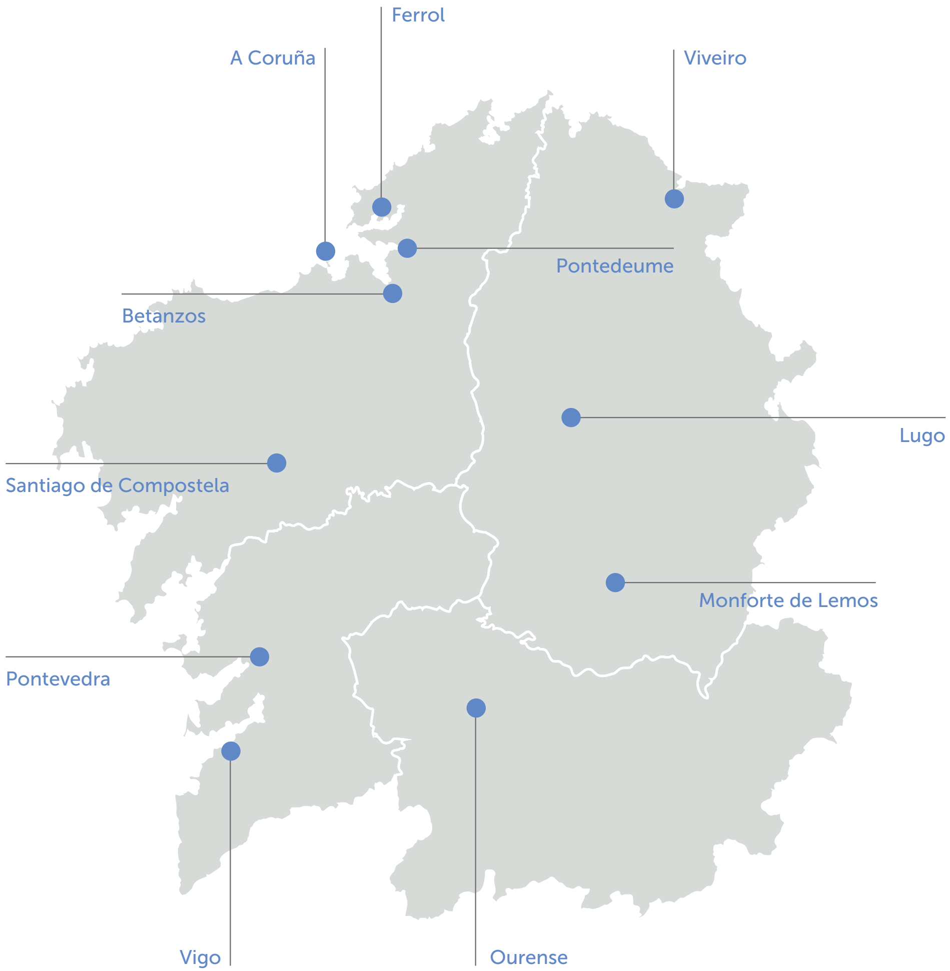
» Using a programming strategy focused on research and training, the value of the experience, the activities in Espazo +60 and social image, **in the year 2019, 28,601 people participated in the more that 1,600 programmed activities.**

Activities programme in all Espazos +60.

14,000

members that Espazos +60 bring together.

Espazos +60



Research and training

Getting the right proposals according to the needs and demands of society requires that Afundación dedicate a considerable amount of effort to the study of all those aspects that may affect an improvement in its programmed offering. To that end, collaborations have been established with first-rate research centres in the field of active aging that have allowed us to better understand the interests and needs of adults. The emotions programme, which is the result of months of study by the Matia Gerontological Institute and developed at the request of Obra Social ABANCA, focuses on highlighting the importance of identifying emotions.

This study started at the beginning of 2018 and at the end of that year, the data analysis could be carried out to establish the main lines of the pilot programme, which was launched between April and June 2019 and was called "Knowing one's emotions".

"Knowing one's emotions"

After this research, Afundación and the Matia Gerontological Institute launched in 2019 the "Knowing one's emotions" programme for members of Espazos +60. Workshops were held between February and October in the centres of Pontedeume, Pontevedra and Vigo.

The emotional plane, although within our focus for years, is still far from being addressed and understood by a good part of the population. We have learned to check over the body and its biological functioning in a patterned way, to adopt healthy lifestyles taking care of our food or doing physical exercise. However, knowledge of the mind and emotions has not been internalised in the same way.

The "Knowing one's emotions" programme is aimed at helping participants to know, understand and work on strategies to manage their emotions in a functional way, that is to say, in a way that favours the achievement of personal goals and improves their level of well-being, learning from reflection, surprise and play.

» The pilot programme, lasting eight sessions, was focused on **reflecting on what an emotion really is** and how it manifests, how one reacts to different situations and how they are regulated or adjusted, working on their normalised and integrated expression.

The value of experience

Voluntary and intergenerational activities support the proposals that Afundación implements in this strategic area. Making the talents and knowledge of older people available to younger people so that they can learn from the experience of previous generations is the common thread of programmes as relevant as "Fálame da emigración" and "Falamos da escola". Both projects promote a participatory learning framework that is in line with the transformative education model promoted by Afundación. Volunteer activities, meanwhile, place value on all that older people can contribute to society, both in educational programmes and in environmental or social sustainability programmes.

In the year 2019, 571 secondary students and 57 volunteers from Espazos +60 Afundación participated in the first edition of the "Falamos da escola" programme. Structured into intergenerational meetings, it promotes the exchange of experiences between those who were schooled between the decades of the forties and seventies of the last century and those who are now in school. After an initial meeting for historical contextualisation, in the second we proceed to debate the ideas that one generation and another have about this evolution. The conclusions allow us, in each case, to provide new arguments to enrich the debate around an education with a transformative vocation.

"Falame da emigración" is, for its part, Afundación's most veteran intergenerational programme. In its fourth edition, it brought together 81 older volunteers and 743 students from 15 secondary schools to research and learn about emigration, a phenomenon that has caused Galicia, since the 19th century, to have more than a third of its population in the diaspora. The experiences of those who had to leave, those who had to stay while their family left or the new reality in which Galicia is also a place for immigrants are some of the issues addressed in these meetings which are highly valued by all the participants and by the educational centres that host them.

Afundación's intergenerational volunteer projects are focused on contributing to the dialogue of Espazos +60 members with young people, participating in reading clubs in secondary schools. The cultural and educational volunteering initiatives, for their part, encourage the sharing of one's own knowledge with other older people as a trainer or guide through historical routes, participating in performances through our artistic storytelling, theatre, puppet or musical groups to the benefit of different groups. Since its formation, the Senior Theatre Group of Afundación is one of the most outstanding examples of the activity of the Espazos +60 volunteers in cultural volunteering. Since October 2019, and within the framework of the "Corrente cultural" programme developed by Afundación, ABANCA and the various municipal corporations, the venues of a large number of Galician towns has hosted the performance of *Os vellos namorados,*, the stage proposal of this group.

Environmental volunteering is designed for all those with interest and knowledge in tree planting. Social volunterring, on the other hand, takes place in charity workshops of Afundación in which handicraft products are made for sale in the charity markets, and the proceeds from ABANCA Welfare Projects go to NGOs involved in social action.

81

older volunteers and 743 students met in the fourth edition of "Fálame da emigración".

Projected associated with "The Value of Experience".

Falamos da escola.

Fálame da emigración.

365 days in Espazos +60

Espazos +60 de Afundación are benchmarks in the revitalisation of an ample training offer for adults throughout the year. Using the fundamental principles of sustainability, transformative education and personal growth, innovation and volunteering which permeate all its areas, the activities designed in the field of active ageing address aspects such as personal well-being, cognitive training, digital culture and active recreation.

To carry out these proposals, also promoting an intergenerational approach in the initiatives, the facilities of the different Espazos +60 have been gradually adapting to this principle of social coexistence. In 2019, the Espazo +60 Afundación Lugo was remodelled to adapt it to the guiding principles of the Active Aging area, as happened in previous years with the buildings of Vigo and Ferrol. With this new approach, innovation, the promotion of digital culture, transformative training and sustainability become the focus of the activities carried out in the centre.

In the section on active recreational activities, the travel offers that Afundación designs every year stand out. With national and international destinations, it is one of the proposals most appreciated by users. In the year 2019, trips were scheduled to Jaén and Almería, Cantabria and the spa of Augas Santas, a cruise through the Netherlands, Athens and Greek islands, as well as Moscow and Saint Petersburg, to which 566 people signed up.

The synergies of ABANCA and Afundación for the development of training programmes, especially in digital finance culture, led the financial institution to develop and present on 5 November

2019 the programme called "Live life". This is a complete package of products and services, both financial and non-financial, and is designed with the advice and participation of Afundación, to offer a global solution to the demands and needs of the elderly, which is playing a leading role in a great social change and redefining this stage of life.

Social image

The revitalisation of proposals of an intergenerational nature, using the experience of the elderly as an asset in training programmes and personal growth, and a society removed from age-based prejudice, converge in this line of Afundación.

"Live life" Programme.

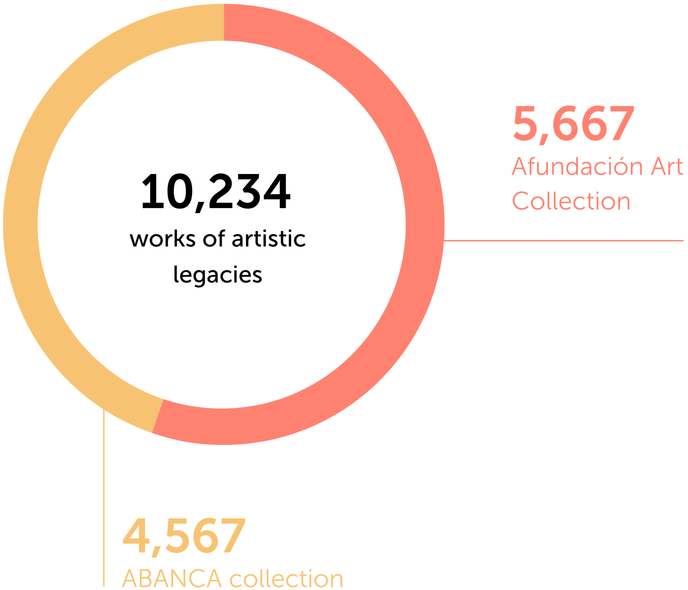
In the framework of the longevity revolution, the pilot experience of its new programme was developed throughout 2019. "Lived histories". This is a project carried out in partnership with Envita that consists of looking over the lives of the elderly as a tool for personal development and as a starting point to think about the present and what one truly wants for the future. The objective is to generate social change through technology, facilitating the collection of life stories in the first person. In this way, value is placed in the experience lived in a unique book, which not only helps us to transcend the legacy of each person, but connects people through their stories and creates a necessary reflection on what new chapters we want to add from now on.

COMMITMENT to culture

103-2, 103-3, 203-1, 413-1

Culture is for ABANCA a transforming medium that enables personal development through experimentation and knowledge. The various programmes that are implemented through Afundación in the fields of visual arts, performing arts, music and audiovisuals, as well as publications, awards and competitions, seek to promote this growth.

With a total of 531 cultural activities and more than 323,436 people participating in them, Afundación, Obra Social ABANCA is a benchmark private non-profit organisation in this field.



Two unique artistic legacies

ABANCA ART COLLECTION

- **Art collection**
  1,350 works
- **Book collection**
  3,217 registries
  - **69** Incunables
  - **11** Facsimiles
  - **530** Economic works or other disciplines
  - **257** Autographs
  - **2,350** Historic works from the 16th and 20th centuries

Afundación ART COLLECTION

- **5,667** works

Also part of the ABANCA legacy is a **book collection made up of 3,217 registries,** with a wide variety of topics in a humanistic interpretation of culture. This book collection has in and of itself a special value as a cultural legacy for future generations.

ABANCA Collection

The ABANCA Art Collection is made up of a group of nearly 1,350 works, including sculpture, photography, painting, engraving and installations. This is the result of a commitment to the preservation and dissemination of Galician culture, originally conceived as an art collection to find the main stages of Galician art represented, beginning with its origins in artists such as Jenaro Pérez Villaamil or Alfredo Souto. Thus, we can document the revival of Galician art by artists such as Luis Seoane, Isaac Díaz Pardo or Carlos Maside, the opening to international trends thanks to Urbano Lugrís, Maruja Mallo or Laxeiro, and the path to current art with works by artists such as Menchu Lamas, Antonio Murado, Leopoldo Nóvoa or Jorge Barbi. From these beginnings, the ABANCA Art Collection has been growing and expanding its borders towards national and international art, with a careful selection of works, highlighting the representation of the main historical avant-gardes through some of its great creators such as Salvador Dalí, Pablo Picasso, Wassily Kandinsky, Chagall, Joan Miró, Chillida or Fernand Léger.

This unique journey that the ABANCA Art Collection makes through the history of contemporary art makes it one of the most relevant in Spain, and of course in all of Galicia.

Afundación Art Collection

Consisting of 5,667 works, the Afundación Art Collection is one of the most complete in the community, whose collection, in addition to including significant Spanish pieces in general, covers the essential stages of Galician art in particular since the 19th century. Its importance earned it the declaration of Asset of Cultural Interest by the Regional Council of Galicia in 2015, thus ratifying a project started more than five decades ago.

The Afundación Art Collection was born with the desire to support and disseminate the work of Galician artists inside and outside the borders of our community, with the clear intention of contributing to increasing the small number of art collections existing in Galicia and with the purpose of promoting creativity and the development of the Galician gallery market. Another basic premise of this collection is its museum-based purpose, that is to say, it is designed to be displayed and, therefore, intended for public enjoyment.

Virtual tour of the main works of the ABANCA Collection.

Virtual tours of works of the Afundación Collection.

Cultural activities

CULTURAL ACTIVITIES
323,436 attendees

· Visual arts
141,240 attendees

· Performing arts
142,298 attendees

Theatre and music
130,851 attendees

Visual arts
11,447 attendees

Publications, awards and contests

· More cultures "Corrente cultural"
38,640 attendees

· Culture of diversity
1,258 attendees

Visual arts

Visual arts are one of the lines of work with the greatest impact and visibility. Afundación's proposal in this area focuses on the organisation of multidisciplinary exhibition projects that respond to different objectives:

The programming of exhibitions in which pieces of the ABANCA Art Collection and those of the Afundación Art Collection play the leading roles.

Put on display in Galicia well-known proposals in the international circuit.

Promotion of art created in Galicia. In addition, Obra Social ABANCA encourages the dissemination of Galician culture by collaborating as a borrower of artwork with exhibitions organised in other territories.

The most recent exhibition proposal around the Afundación Art Collection is an example of this transformative vision of the artistic experience. "Con D de arte. Unha ollada infantil á Colección de Arte Afundación máis contemporánea" is an exhibition conceived organically for children, to that end being adapted from the selection of the artwork to the assembly in the showroom. After a careful selection of some of the most representative pieces from the most important Galician art collection, it was exhibited at Café Moderno Afundación in Pontevedra.

The Culture Area's commitment to creativity and experimentation as drivers of knowledge implies a permanent updating in the initiatives developed by the Galician entity. In this way, science has played the leading role in 2019 in a large amount of its projects, from the exhibition "Papiromates", in which mathematics and origami were the basis for the creation of artistic pieces, to "Our Planet", a worldwide first of an exhibition project that, based on the eponymous series produced by the audiovisual platform Netflix, reflects the consequences of human intervention on the environment, as well as the urgency of facing and halting the effects of climate change.

The Afundación A Coruña Headquarters, the space in which both exhibitions were presented throughout this year, in 2019 was a benchmark of culture as a channel for scientific dissemination, thus consolidating Afundación's calling to have its spaces be benchmarks for its citizens. To this end, a new exhibition project concept was implemented in 2018 that transgressed the traditional vision of the exhibitions and was perfected in 2019 with, among other events, the opening in the ABANCA Social Centre of Santiago de Compostela of "Sound commitment. Music in the ABANCA and Afundación art collections". On the occasion of "Our Planet" at the Afundación A Coruña headquarters, the entire Netflix documentary was screened in several sessions;iIntergenerational cooking courses were designed for families inspired by food sustainability; plays were planned for all audiences focused on respect for the environment; and the inaugural conference of the well-known farmer, disseminator and environmental specialist Joaquín Araújo was organised.

"Our planet" is also conceived as a reflection in the cultural sphere of Afundación's commitment to the diffusion of innovative technologies applied to the most diverse areas. In the course of the exhibition, one could find elements of virtual reality and other technological devices which reinforced the essential message of turning sustainability into a way of life; a message in which, in Afundación, emphasis is made through the activities carried out in Naturnova, the only environmental education centre in Galicia.

In the framework of visual arts, and along the lines of Afundación to spread the creativity of Galician artists, the exhibition "Yo, Abelenda" was organised, a tribute to the multi-faceted figure of Alfonso Abelenda. Designed in its preliminary stages with the collaboration of the artist himself, this exhibition became the posthumous tribute of Obra Social ABANCA to one of the most fundamental creators of contemporary Galician art. It had more than one hundred works and a project design framed in the new line of exhibitions of Afundación.

Visitas virtuales a todas las exposiciones.

Performing, musical and audiovisual arts

The spaces that Afundación has throughout the Galician territory host the various proposals that, in the area of stage, musical and audiovisual programming, Obra Social ABANCA presents. Using the identification of culture with personal and collective growth as a starting point, both from a functionalist and formalist perspective, the approach of the Galician entity is characterised by offering in its headquarters and centres a remarkable range of activities that reinforce its role as the main private cultural stakeholder of Galicia.

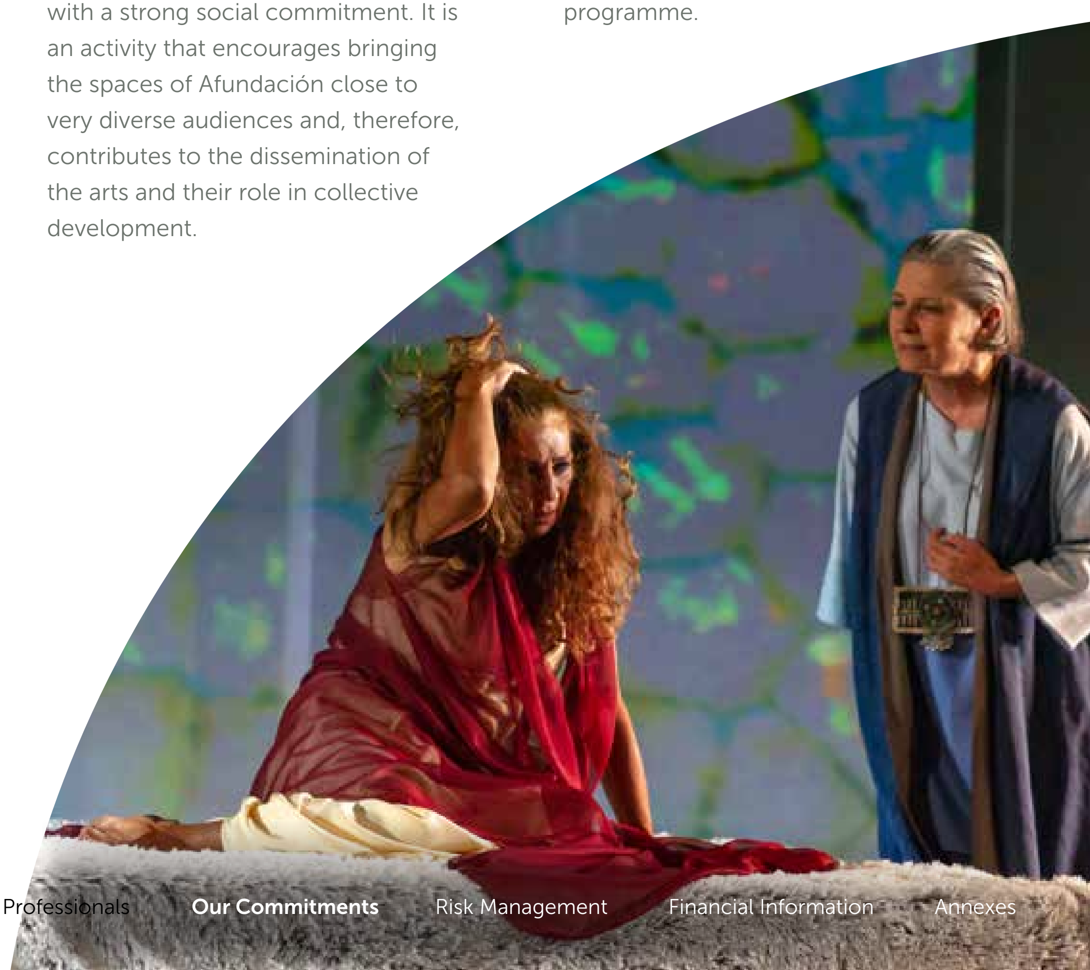
On an annual basis, Teatro Afundación Vigo and the Afundación Pontevedra Headquarters open their doors to the Season of Theatre Passes. Companies with a solid state prestige, such as Teatro Clásico, Chévere or Centro Dramático Nacional, present their most recent creations in both cities, with leading figures of the stage. With this, Obra Social ABANCA contributes to the continued consolidation of Galicia as one of the baseline destinations for stage tours of Spanish companies. At the same time, the initiatives of Centro Dramatico Galego, the fundamental body for the development of theatre in Galicia, present their proposals throughout the year in Afundación's cultural spaces.

In the field of the musical arts, Obra Social ABANCA has its Season of Classical Passes, which places Vigo as one of the reference points in the international tours of soloists, directors, singers and groups of the highest tier. From operas or ballets to classical music recitals, the Afundación Vigo Theatre in 2019 hosted notable events such as those starring pianist and conductor Dima Slobodeniouk, conductor Eun Sun Kim, conductor Baldur Brönnimann, violinist Ellinor D'Melon, the St. Petersburg Chamber Orchestra, the Royal Galicia Philharmonic, the Galician Symphony Orchestra or the Vox Stellae Ensemble.

As an entity with a clear social calling, Afundación has support programmes, with considerable discounts to certain groups with few economic resources, so that all citizens may have the greatest possible access to culture.

In the audiovisual field, Afundación plans cinema cycles based on festivities or events related to their lines of promoting values. In 2019, screenings were organised on the occasion of the celebration of International Women's Day, the Lyrical Season of A Coruña or the exhibition project "Sound commitment", for example. Specific proposals were also designed for children and others including titles with a strong social commitment. It is an activity that encourages bringing the spaces of Afundación close to very diverse audiences and, therefore, contributes to the dissemination of the arts and their role in collective development.

In 2019, a new musical proposal called "Jazz seat" was started at the Afundación A Coruña Headquarters, with which it seeks to offer a greater variety of musical styles and revitalise the Afundación space as a reference point for all kinds of audiences. Figures such as the quartet of María Toro, Chicuelo and Mezquida, Carmona, Colina and Serrano and Jeff Ballard Trío starred in the concerts framed under this programme.



Concert by María do Ceo. Sound commitment.

Publications, awards and contests

The active participation of society in culture and the empowerment of literary creativity in various genres are other points in which the activity of Afundación has an impact. In this regard, the entity announces a series of awards in areas such as poetry creation in the Galician language (Afundación Poetry Award) or literary or opinion journalism in Spanish and Galician (Afundación Julio Camba Journalism Award and the Afundación Francisco Fernández del Riego Journalism Award, respectively). These are contests of well-known prestige which in the case of the Adunfación Poetry Award this year identified Miguel Sande for his work *Os filósofos xa non brindan con cicuta*. The Afundación Francisco Fernández del Riego Journalism Award recognised Inma López Silva for her article "Terra rota", while the commemoration act of this event took place at Círculo de Bellas Artes in Madrid and there it was announced that Cristina Sánchez-Andrade won the award for her article "In the hands of God".

Julio Camba Award.

In collaboration with ABANCA and the Rosalía de Castro Institute in Santiago de Compostela, the San Clemente Rosalía ABANCA Awards are presented every year, the jury of which includes students from national and international secondary schools, which identify the best novels published in Galician, Spanish and foreign languages. Marcos Calveiro for his piece *O xardineiro dos ingleses*, Pedro Mairal for *La uruguaya* and Han Kang for *La vegetariana* were the winners.

A mobile application specialised in Galician music, GMusic, by Germán Cacheda de Paz and Xavier Facal, and a new and innovative electric guitar design by Martín Gómez Domínguez were the projects awarded at the 7th edition of the Emprende Gaiás-Sixto Seco Awards. With this event, the Galician Regional Council, in collaboration with Afundación, seeks to support Galician entrepreneurs who are taking their first steps. Every awarded project receives a cash award and the possibility of joining the co-working office of Centro de Emprendemento Creativo de la Ciudad de la Cultura for a year.

The publications, on their part, are the channel through which Afundación provides a set of studies and research to society, mainly linked to the economy, visual arts and literary contests. In 2019, a compilation work was published with all the articles distinguished by the Afundación Julio Camba Journalism Award throughout its history.

More cultures

In the context of the Culture Area, Afundación carries out a series of multidisciplinary projects in which both the transforming cultural calling of the entity and its reinforcement of cultural capillarity and empowerment of volunteers are present.

In "Corrente cultural", for example, the role of Afundación is consolidated as the main private cultural agent of Galicia beyond its headquarters in the seven Galician cities, by promoting cultural activities throughout the Galician territory. Based on collaboration agreements with ABANCA, the first financial institution in Galicia and sole patron of Afundación, and the different Galician municipalities, exhibitions or stage proposals are projected in the corresponding local facilities, complemented, in most cases, by parallel teaching activities. Exhibitions such as "Unha mirada de antano. Photographs by Ruth Matilda Anderson in Galicia", "Auga, o sangue da terra" or "Nós tamén fomos emigrantes" can be visited in 2019 in towns such as Tomiño, Redondela, Carballo, Betanzos, Becerreá, Silleda, Pontedeume, Burela, A Guarda, Allariz, Verín, Ridabeo, A Fonsagrada or Viveiro.

Also framed within "Corrente cultural" are organised stage activities articulated by volunteer partners participating in the Senior Theatre Group of Afundación's Espazos +60 The stages of different Galician towns will host the piece *Os vellos namorados*, a version of a classic written by Castelao.

"Corrente Cultural".

With the intent to favour accessibility, integration and respect, "Culturas para a diversidade" is erected as Abanca's multi-disciplinary programme in favour of baseline inclusion. Theatre, music or exhibition activities carried out by people with diverse abilities demonstrate the many possibilities of the arts to transform society and promote inclusive values, while allowing the protagonists of these activities to express their creativity, transmit their experience and broaden our collective vision.

COMMITMENT to the environment

ABANCA has taken a further step in its involvement in facing the climate emergency: from joining various international collective commitments, through the creation of a portfolio management service focused on sustainability and support for renewable energy projects, to the calculation of carbon footprints or the reduction of energy consumption, a fundamental part of the energy and environmental efficiency strategy.

Commitment to Climate Action

102-11, 201-2

ABANCA has made clear its commitment to the environment and the Sustainable Development Goals, being one of the 130 signatory banks of the Principles for Responsible Banking, on 22 September in New York, and one of the 31 banks worldwide that have signed the Collective Commitment to Climate Action, on 23 September, both promoted by UNEP FI, the financial initiative of the United Nations programme for the environment, and the Climate Agreement reached by the main financial entities of Spain at COP25 summit in Madrid.

Adhering to these commitments implies ABANCA's participation in the corresponding working groups, which aim to project and implement a series of measures, which they will take while in permanent dialogue with their clients, to promote change towards technologies, business models and societies that are low in carbon and climate resilient.

The signatory entities have undertaken to measure the carbon footprint present in their balance sheets in an approved manner, in order to be able to face current environmental challenges and transform their credit portfolios in that sense.

Global Plan on Energy Efficiency

103-2, 103-3

In line with the energy and environmental policy and the sustainability policy, approved in 2018 and 2019 respectively, ABANCA has set new guidelines for action in the coming years in its global energy efficiency plan, to be implemented in 2020.

The main strategic lines in energy matters are:

A point to highlight in the plan is the energy management system, which is considered a fundamental element of energy efficiency, on which the entire control and management of energy consumed in the organisation will revolve. The objective is for there to be an energy savings plan, derived from a study or diagnosis, and also to guarantee continuous improvement.

1. **Reduction** of energy consumption.
2. **Certification** that the sources of origin of the energy consumed are renewable.
3. **Study and compensation** of the carbon footprint through innovative projects which have a positive impact on the protection and sustainable development of the local environment.
4. **Awareness-raising and training** of the main stakeholders.

2019 Environmental Footprint

103-2, 103-3. 302-1, 302-4, 305-1, 305-2, 305-3

ABANCA is an entity committed to the environment and, therefore, measures, manages and implements measures to reduce its own environmental footprint.

ABANCA has for the first time calculated its carbon footprint with a specially designed tool, following the emission factors established by national and international standards. Based on the calculation resulting from the 2019 financial year, a main reduction target for 2020 of 50 % has been established for scope 2, since this is where the entity has the highest level of emissions.

ABANCA has a photovoltaic plant which produces a total of 420.3 Gj.

38,670 m^3

Water consumption in 2019.

341.8 t

Paper consumption **(-22 % s/2018).**

95,840.79 Gj

Energy consumption **(Includes electricity and heating fuel).**

15,748.69 t CO_2eq

Total emissions.

Scope 1[1] 1,849.39 t CO_2eq

Direct emissions.

Scope 2[2] 10,464.39 t CO_2eq

Indirect electricity emissions.

Scope 3[3] 3,434.91 t CO_2eq

Indirect emissions from travel by employees.

(1) *Direct emissions from the consumption of refrigerant gases and fuel. In the case of Banco Caixa Geral, only consumptions from the date of acquisition are taken into account (September 2019).*

(2) *In the case of Banco Caixa Geral, only consumptions from the date of acquisition are taken into account (September 2019).*

(3) *Emissions associated with the displacement of employees, losses in the transmission and distribution of electricity and the extraction, production and transportation of consumed fuels are being considered. In the case of data corresponding to the travel by employees in Portugal (the consumption of fuels derived from travel by taxi, train and own cars of the employees), they are only taken into account as of March.*

Management of electronic waste

Improper treatment of electronic waste poses serious health problems, because it contains dangerous components that pollute the air, water and soil. Furthermore, treatment processes without adequate means and facilities or qualified personnel pose an additional threat to people and the planet.

Year after year, we are moving towards a circular economy model as a new economic paradigm and alternative to the current production and consumption model. The objective sought after is for electronic devices to have a second life, thus by refurbishing them, we can reduce the notable environmental impact that this type of waste generates. Preparation for reuse is carried out by the company Revertia.

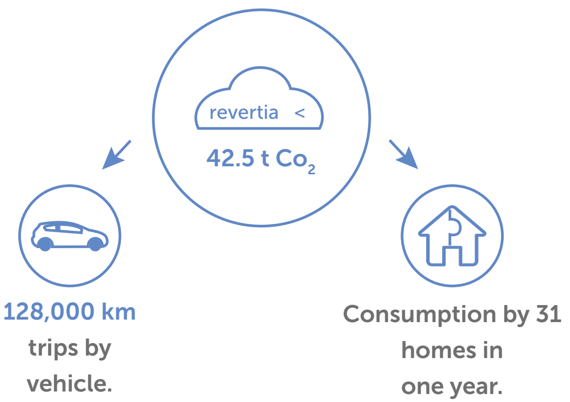
Of all the waste managed, 30 % of desktop computers and LCD screens could be reused. Material that cannot be reused is sent to recycling plants for proper management. Reused equipment served to make five donations that entailed the delivery of 74 complete pieces of equipment.

Within this reuse process, a life cycle analysis (hereinafter, LCA) is carried out. The LCA is a tool used to evaluate the environmental burdens associated with a product taking into account its full cycle. It identifies, quantifies and characterises the different potential environmental impacts associated with each of the stages of a product's life cycle.

The calculation method used in previous financial years has been updated, incorporating new categories, for waste such as laptops, *tablets* and *smartphones*. The Energylab technology centre, under the University of Vigo, was the entity that carried out this review, which follows the framework of the ISO 14040: 2006 standard for life cycle analysis studies.

The reuse rates achieved have saved 42.5 tonnes of CO_2 that would have otherwise been released into the atmosphere.

+ 157,000 kg
of managed electronic waste.



The emissions of the average passenger vehicle (internal combustion) in Europe for different technologies are taken into account: EURO 3, 4 and 5. In addition, a focus from the cradle to grave or well to wheels *is followed, that is to say, it includes the production of the fuel up to its emissions after being consumed in the vehicle.*

Global management

# of risk

Quality in risk management constitutes a priority axis of action for the ABANCA Group.

103-2 Quality in risk management constitutes a priority axis of action for the ABANCA Group. The Group's risks policies are directed at maintaining a medium-low profile for all risks, with its risk management model constituting a key element in achieving its strategic objectives.

The Group's risk control and management organizational model follows the guidelines of the Basel Committee on Banking Supervision (BCBS), establishing comprehensive risk management that encompasses the entire organisation and which is defined in three differentiated lines of defence:

1

First line of defence: management and control functions performed by the Group units, understood as the business units and the credit unit. This line includes the primary controls of the activity.

2

Second line of defence: control functions carried out in accordance with comprehensive risk management, through the General Directorate for Corporate Control and Risks and the General Directorate for Corporate Governance and Legal Affairs, in the areas that are within its authority. It establishes regulations and monitors compliance with the first line of defence.

3

Third line of defence: supervision duties carried out from internal auditing.

With this model, the Group seeks to guide the entity towards the best banking practices, promoting the risk culture throughout the organisation, carrying out comprehensive risk management (credit, market, liquidity, interest, operational, security and continuity, etc.), which guarantees the solvency and resilience of the entity according to the risk profile defined by the governing bodies.

To ensure proper control of credit risk, within the General Directorate of Corporate Control and Risks, is the comprehensive risk management area which is responsible for defining risk management policies and procedures on the basis of the target risk profile. It also constantly reviews the policies to bring them into line with legislation and the bank's strategy.

Likewise, within this general directorate is the unit of internal validation and control of risk data, the function of which is framed in guaranteeing the quality of the different measurements and risk assessments along with the establishment of measures to guarantee the quality of the risk information.

In addition, the implementation of the optimisation of the profitability/risk ratio is continued through Risk Adjusted Return On Capital (RAROC) methodologies, with the entity having a reinforced control framework (on solvency) which avoids incurring risks not aligned with the Group's risk profile, applying the methodology of disaggregated scorecards and the identification of strengths.

Thus, the Group has implemented comprehensive risk management in which the definition and control of risk appetite is one of the key elements, this being absolutely necessary to guarantee compliance with the desired risk profile and in line and consistent with the annually approved budget, in the medium-term strategic plan, as well as in day-to-day risk management.

The Group defines risk appetite as the amount and type of risks that are considered reasonable to assume in the execution of the business strategy, in such a way that it can keep up its ordinary activity when faced with the occurrence of unexpected events. To this end, serious scenarios are considered which could have a negative impact on its capital, liquidity and/or profitability levels.

The entity actively manages the entirety of the risk lifespan, from pre-analysis to analysis/ granting, monitoring, and the extinction of the risk. The main risks are not only analysed at the time of their origin or when irregular situations arise in the ordinary recovery process, but rather they are carried out continuously.

Credit risk management is also supported by credit management tools, such as scoring models (individuals, freelancers and micro-SMEs), rating systems (exposures with medium and large-sized companies) and pre-classifications (large clients).

The exposure information and aggregation systems available to the bank allow for exposures to be monitored, verifying systematic compliance with the approved limits, as well as the adoption, if necessary, of the appropriate corrective measures. Periodically, monitoring is carried out on the status of the bank's main portfolios, which is regularly presented to the Board of Directors.

The bank has a risk limit system which is updated with a minimum annual frequency and covers credit risk, as well as the different market risk exposures, both in trading and liquidity and structural, over which exhaustive control is carried out that is elevated to the highest bodies of governance in the bank.

BODIES responsible for drafting and managing risk

BOARD of Directors

It establishes the entity's general risk policy, authorises the system of established control limits and tracks compliance with the same, in addition to determining the risk appetite framework.

DELEGATED Credit Commission

It is given the powers that correspond to the Board of Directors in relation to the granting and monitoring of financing operations.

COMMISION of Auditing and Compliance

It has among its functions the supervision of the effectiveness of internal control and the risk management systems.

COMPREHENSIVE RISK Commission

It evaluates risk management and control to guarantee the content, integrity and effectiveness of the risk appetite framework, advising the Board of Directors on risk matters. To that end, it periodically monitors the Group's risk profile and is in charge of overall risk control. In addition, it ensures that the Group's actions are in line with its level of risk tolerance, establishing overall limits to the main risk exposures, monitoring them and establishing the necessary actions if there are any deviations.

MANAGEMENT Committee

It is the committee responsible for proposing and monitoring the strategic plan, the annual global budget and the entity's annual operating plan. It also approves the entity's annual general objectives and its distribution according to business lines, centres of responsibility and segments, as well as relevant corporate decision-making or monitoring of the entity.

ASSETS AND LIABILITIES Committee (ALCO)

The Assets and Liabilities Committee (ALCO) is the body responsible for designing the financial strategy, including, among other things, the capital adequacy policies, the establishment of fees, the funding strategy, investment strategy and investment policies, ensuring their compliance. In addition ,it defines operational objectives in terms of financial management (balance sheet, liquidity and margin) in order to meet the strategic objectives. It is in charge of the correct implementation of asset and liability management strategies, monitoring the commercial policy.

LEVEL of tolerance to risk

102-15

As a fundamental element of risk management, the bank has defined a risk appetite framework (*RAF*), through which the group's governing bodies explicitly define the desired and maximum levels of risk (appetite and tolerance) that they are willing to assume, depending on the entity's strategic plan.

This exercise was carried out both at the overall risk level and for each of the relevant risks to which the Group is exposed due to the undertaking of its activity. The most senior representatives of the entity and its governing bodies are involved in creating the bank's RAF. The comprehensive risk management unit, operating within the General Directorate of Corporate Control and Risks, is responsible for defining and proposing the RAF for approval by the governing bodies of the bank based on the strategies defined by the latter. Once the RAF has been defined, this unit prepares monitoring and control reports with the frequency required by the governing bodies.

Specifically, the document is approved at the level of the Board of Directors, with the prior approval of the Comprehensive Risk Committee. Additionally, the members of the Management Committee have a very active participation in the conceptualisation and establishment of the appetite based on the strategic planning defined for the bank.

The appetite and tolerance are defined through the selection of the set of both qualitative and quantitative indicators, after calibrating the desired levels (appetite) and maximum (tolerance).

In the definition of the RAF, all the relevant risks to which the Group is exposed in the undertaking of its activity, as well as in the achievement of its business objectives, have been considered. To that end, the criteria established in the RAF will be taken into account at all times within the normal circuits of analysis and approval of operations. Specifically, the main risks of the activity to be monitored are:

Solvency risk. This is the probability of incurring losses due to non-compliance with the solvency ratios and which may put the entity's future viability at risk. 103-3

Business risk (profitability). Risk that the entity may incur losses due to adverse business decisions or non-fulfilment in implementation of the business's strategy.

Market risk. This is the risk of incurring losses, and therefore the risk of negative impact on the Group's results and capital, due to maintaining open positions in the financial markets, as a consequence of an adverse movement in the financial variables (risk factors) that determine the market or realisable value of those positions.

Operational risk. This is the risk of loss resulting either from deficiencies or failures of internal processes, human resources or systems, or from external circumstances, including legal risk. Operational risk also includes reputational risk, this being understood as that which is linked to the perception had of the Group by the different stakeholders with which it relates, whether internal or external.

Credit risk. This is defined as the likelihood that the entity will incur losses due to non-compliance with obligations by a counter party.

Interest rate risk. This is the possibility that variations in interest rates may adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

Liquidity risk. This is the ability of an entity to finance its own growth and to meet its payment obligations upon maturity, without incurring unacceptable losses.

To assess each of these types of risks, ABANCA uses defined regulatory or internal methodologies based on the guidelines and recommendations established by the regulator, as well as best market practices. These risks are monitored on a monthly basis, following the defined methodology and ensuring that they are within the established risk profile.

ABANCA's global risk framework includes the framework of policies, rules and procedures aimed at risk control and monitoring. Different controls are established in them aimed at mitigating risks, and obtaining the level of risks desired by the entity.

In this line, the entity is following a dynamic model in terms of control mechanisms, reviewing itself at least annually, and seeking continuous improvement of the different processes and procedures established.

Lastly, it should be noted that ABANCA has a highly diversified portfolio of assets, with no concentration levels being detected in the sectors/clients that could be affected by the risk of climate change. Due to this, it is considered that climate risk currently has no impact on the business model or on the entity's strategic plan.

Financial

information

ABANCA closed the financial year of 2019 with a net profit of 405.0 million euros, 6.7 % more than in 2018. With a profitability of 10.0 %, we are among the most profitable banks in the Spanish financial system.

PROFITABILITY

€405.0 M
net profit.

10.0 %
ROE.

- The entity maintains its robust levels of profitability (ROE 10.0 %).
- Positive variation of the result +6.7 year-on-year.
- Recurring income continues to improve (+5.8 % basic margin) and remains a pillar of profitability.

RISK QUALITY

2.8 %
default rate.

-5.6 %
doubtful balances.

58.8 %
coverage of non-performing assets.

- The default rate is below 3 % (2.8 %) thanks to the decrease in doubtful balances.
- Non-performing asset coverage rate of 58.8 %, among the highest in the sector.

SOLVENCY AND LIQUIDITY

15.8 %
total capital.

€1.267 Bn
on CET1 capital requirements.

96.3 %
LTD.

- Capital levels far exceed the regulatory requirements.
- Healthy financing structure based on the clients' deposits.

COMMERCIAL DYNAMISM

> €85 Bn
turnover with clients.

€2.2 Bn
formalised credit with SMEs and self-employed persons in the year.

- The entity raises its turnover above 85 billion.
- Formalisations of business with SMEs and self-employed persons maintain a good evolution, with 6.6 % more than in 2018.
- The formalisation of general insurance grew by 18.7 % supported by the marketing of innovative products and client experience.
- Success in the integration of DB Portugal and BCG both from a technological and business viewpoint.

KEYS

103-2, 103-3

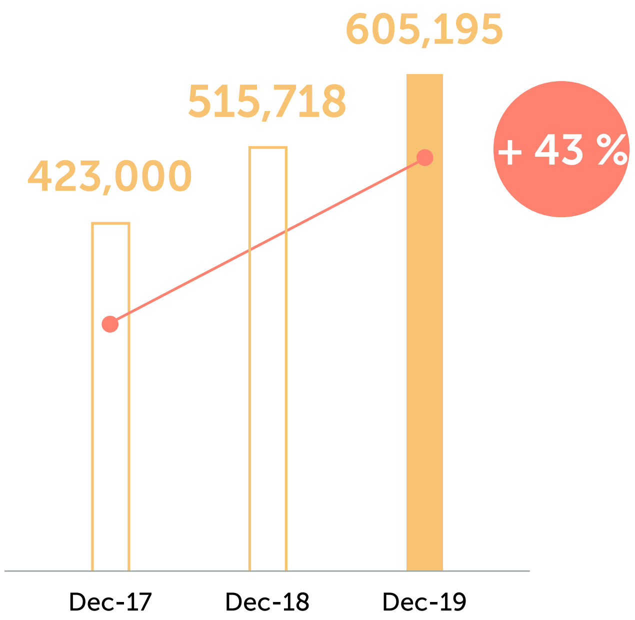
Growth of digital channels within a mixed model that prioritises the relationship with the client

During 2019, digital channels experienced a breakthrough both in terms of transactions and business generation. ABANCA ranks in the top 3 of banks with the best digital experience according to the latest study by the independent firm D-Rating.

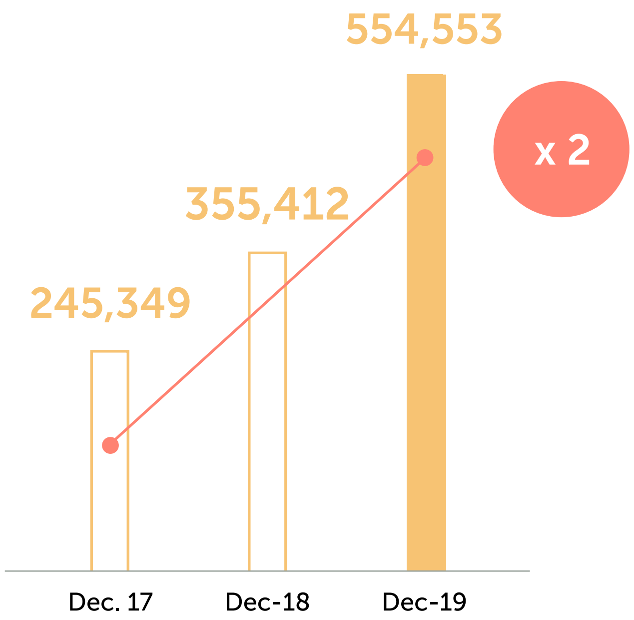
45.6 %
digital contracts (2017-19).

TOP 3*
of banks with the best digital experience.

Evolution of clients connected to mobile banking (units-month data)



Interactions with clients in mobile banking (thousands)



** In the ranking of traditional banks, according to an independent study by D-Rating, a firm specialised in analysing digital solutions.*

Promoting the insurance business as a source of income and profitability

With the aim of promoting the development of its insurance business, ABANCA carried out two large operations that led to the redefinition of its model for the upcoming years. On the one hand, it addressed the internalisation of its life and pension business, which came to be managed entirely within the group. On the other hand, it signed a long-term alliance agreement with the first European insurance bank, Crédit Agricole Assurances, to operate in the general insurance segment in Spain and Portugal.

1

New company LIFE AND PENSIONS

- Greater personalisation of products.
- Greater efficiency in management.
- Best client experience.
- Best sales support.

2

Agreement GENERAL INSURANCES

- Leading insurance bank in Europe.
- Joint-venture 50 %-50 %.
- Long term and stability.
- Creation of exclusive and innovative products.
- Scope Spain and Portugal.

3

Launch of innovative products

- **ON-OFF Insurance.** Payment for direct use and control by the client.
- **Dependency insurance.** Social awareness to personal situations.

Successful integrations that have created value

The integration of Deutsche Bank PCB Portugal and Banco Caixa Geral have been successful and have generated value without affecting ABANCA's current business.

1

- Creation of **mixed teams** with members from **both entities.**
- Screen-to-screen *approvals.*
- **Solid governance** of the project.

2

- **Continuity of operations** without impacting customer service.

3

- **Implementation** of corporate culture in the integrated teams.
- **Application of the ABANCA brand** in all media and formats.

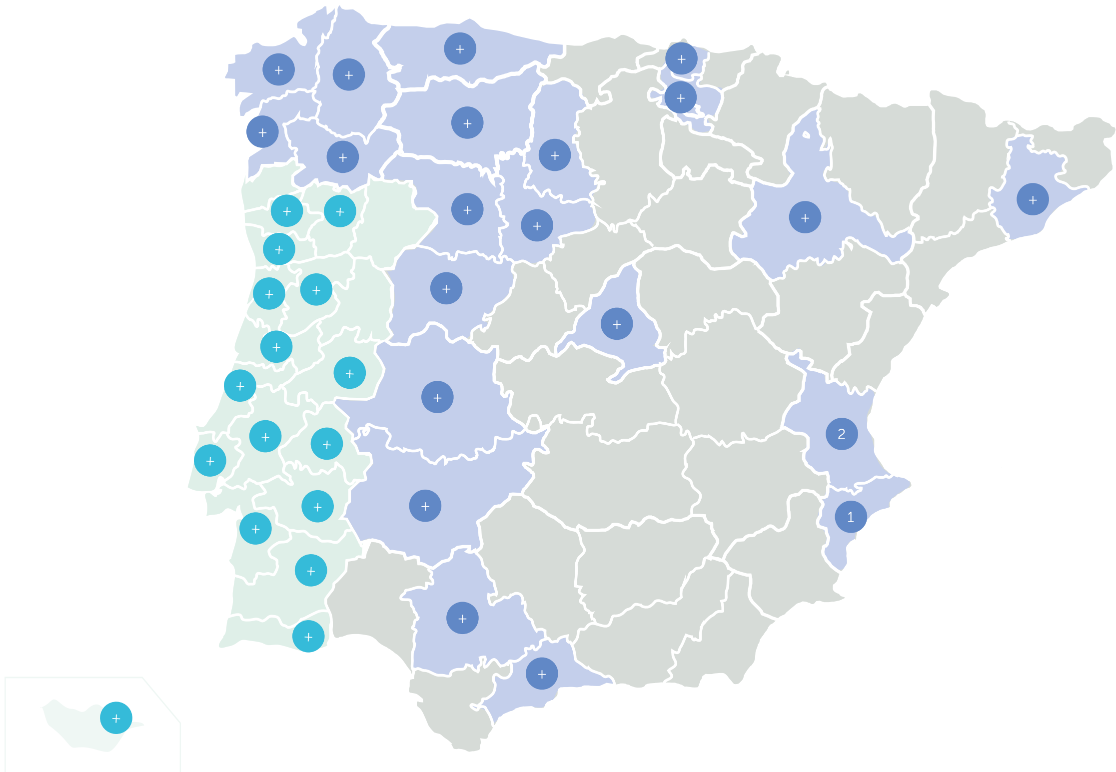
ABANCA PORTUGAL

+ 20 %
result obtained vs. Expected business plan.

+ 13.9 %
Collection of client resources during 2019.

+ 6.4 %
loans for ordinary business activity.

+ 15.6 %
increase of investment funds in 2019.



BANCO CAIXA GERAL

101 %
degree of compliance with objectives established for the 4th quarter.

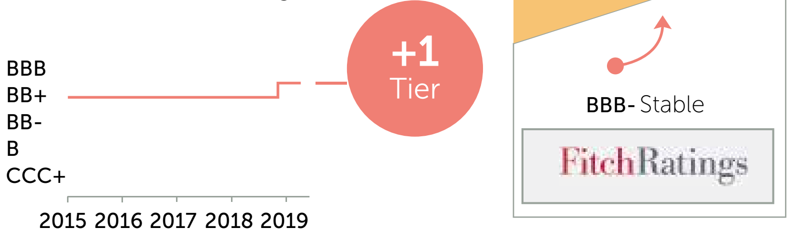
x 3
volume of formalisations of mortgages in the 4th quarter (vs. 4th quarter 2018).

€180 M
formalisations of loans to SMEs in the 4th quarter.

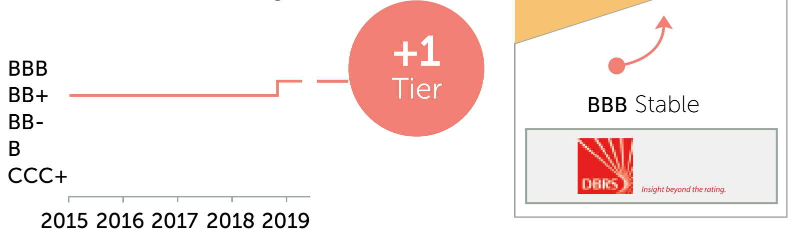
+ 7.1 %
increase of investment funds in the 4th quarter.

Sole Spanish entity with improvements in ratings for two consecutive years

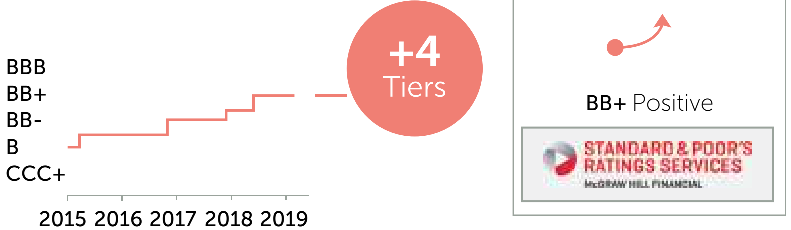
Fitch (Long-Term Issuer Default Rating)



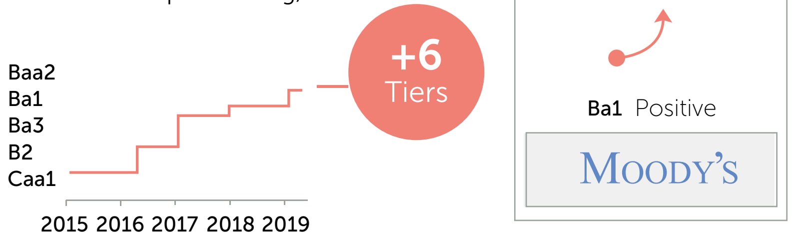
DBRS (Long-Term Issuer Default Rating)



S&P (Long-Term Issuer Credit Rating)



Moody's (Long-Term Deposit Rating)



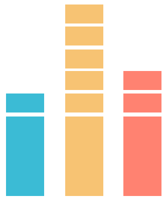
Top Spanish bank by growth in brand value in 2019

ABANCA has become the Spanish bank with the highest growth in brand value in 2019, as revealed in a report prepared by the specialised consulting firm Brand Finance. According to the "Brand Finance Banking 500" study, ABANCA climbed 79 places in the 2019 ranking and has become the only financial institution in Spain that has improved its position compared to the previous year.

As this independent report reflects, ABANCA has increased the value of its brand by 55 %, against a general worsening trend within the Spanish financial system. This notable improvement in brand strength makes the bank the thirteenth fastest growing entity in the world, according to this analysis.

Results of the brand value analysis in 2019

+ 79
places earned
in the worldwide ranking



13th
bank in the world
by growth of brand value

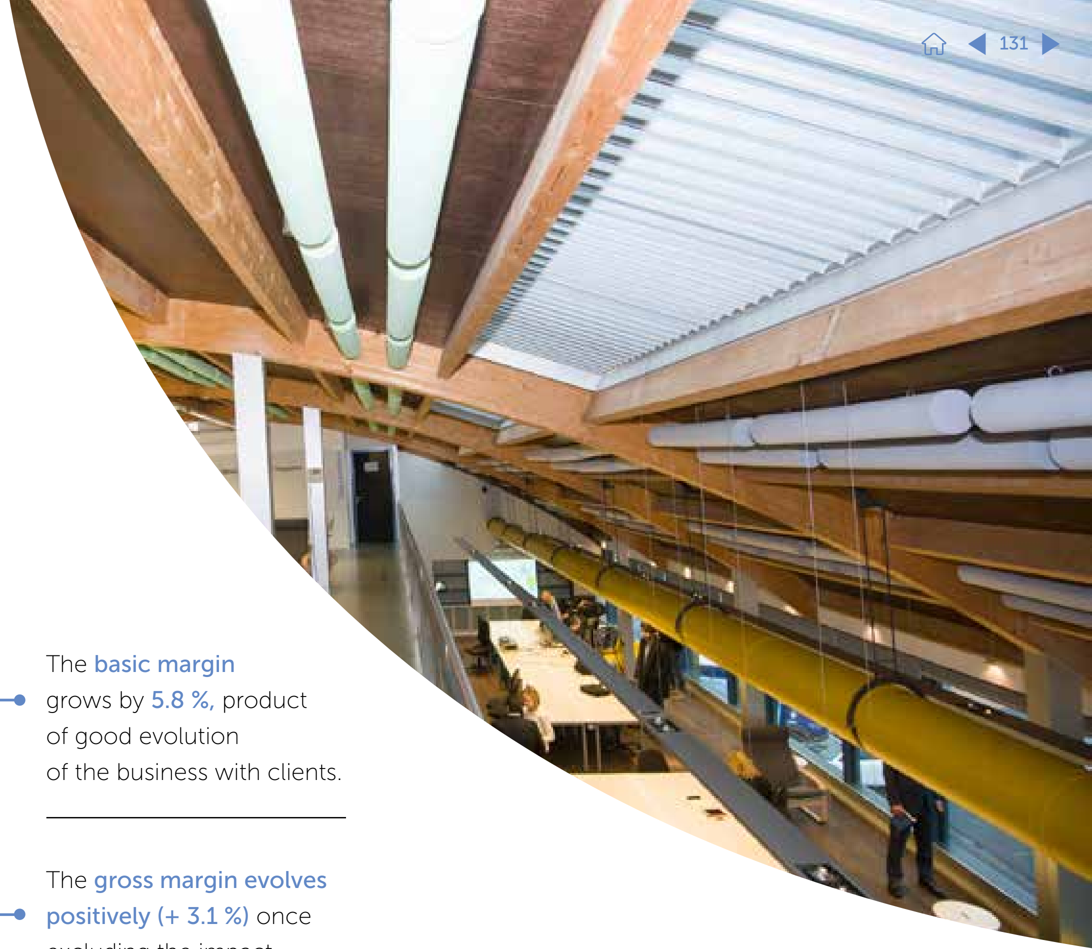
55 %
Increase
of brand value of ABANCA

1st
Spanish bank
by growth in brand value in 2019

RESULTS

102-7, 103-3

ABANCA closed the financial year of 2019 with a net profit of 405.0 million euros, 6.7 % more than in 2018. The result implies a profitability of 10.0 %, which keeps the entity among the most profitable banks in the Spanish financial system.



(millions)	2019	Var. 2019/2018
INTEREST MARGIN	574.6	2.4 %
Income by services	205.5	16.6 %
BASIC MARGIN	780.1	5.8 %
Dividends and results by method of part.	11.8	-45.7 %
Results of financial operations (net)	122.1	-57.7 %
Other (net)	-3.2	-
GROSS MARGIN	910.8	-14.6 %
Operating expenses	670.1	-0.0 %
Provisions and impairments	92.9	144.3 %
Ordinary impairments credit investment	88.0	14.4 %
Other profits/losses	282.4	754.4 %
BAI	430.2	9.9 %
Taxes	25.2	111.9 %
NET PROFIT	405.0	6.7 %

The basic margin grows by 5.8 %, product of good evolution of the business with clients.

The gross margin evolves positively (+ 3.1 %) once excluding the impact of Itínere in 2018.

The contribution of the basic margin, discounting operating expenses improves by €42.9 M.

ROE: 10.0 %

/Data from 1018 uniform with2019 taking into account the absorption of the holding. Effective date of reverse merger: 01-January // Impact of integrations: DB PCB starting 09-June and BCG starting 01-September // ROE ex AT1 and distributed dividends.

Profitability based on recurring income

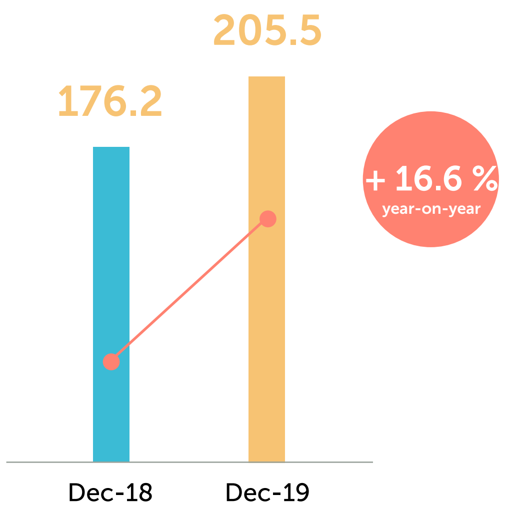
The result registered by ABANCA in 2019 reflects the good evolution of its business with clients. The interest margin increased by 2.4 % thanks precisely to this retail activity. The sales margin grew steadily due to the dynamism of the business and good price management.

Income for provision of services increased by 16.6 %

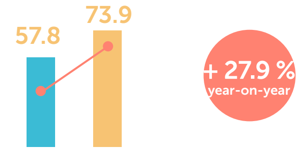
The good performance of the income for provision of services stands out, which increased by 16.6 % thanks to the promotion of those products offering greater value to the client. Income from off-balance sheet resources increased by 27.9 %, income from collections and payments by 10.5 % and income from banking services by 11.8 %.

As a result of this good performance, ABANCA managed to improve its basic margin by 5.8 %, the main line in obtaining recurring income for the income statement.

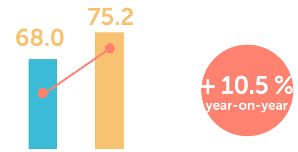
Income for provision of services
(millions of euros)



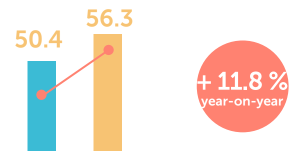
Income for resources off balance sheet (millions of euros)



Income for payment and charge services (millions of euros)



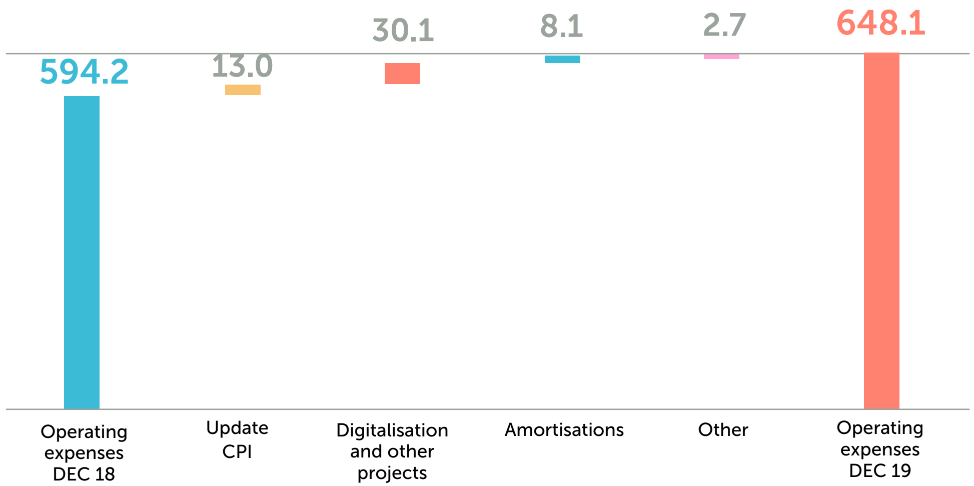
Income for bank services (millions of euros)



The cost base remains stable

The cost base remained stable, despite recent integrations and the strong investment in technology, estimated at 91.5 million euros, made by the bank to improve its technological and business capabilities.

Operating expenses (millions of euros)



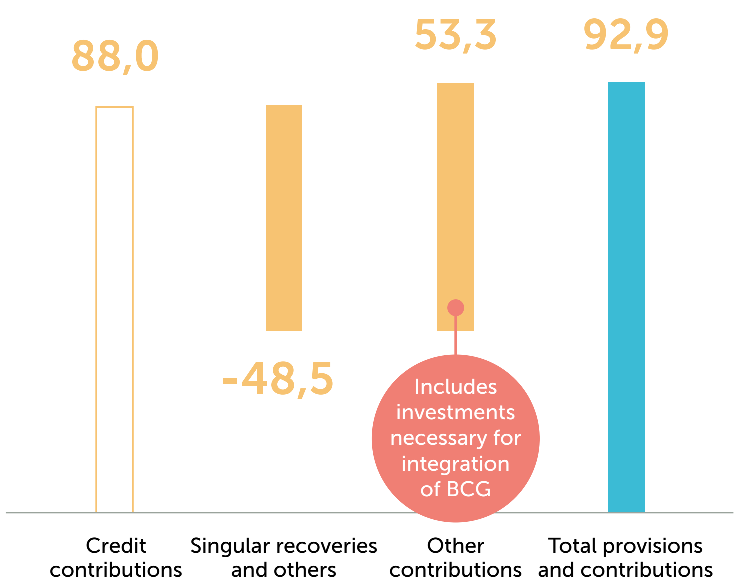
Operating expenses 2018 and 2019 eliminating impacts of amortisations of intangibles by ABANCA Holding Financiero.

€91.5 M
total technological investment allocated to projects in 2019.

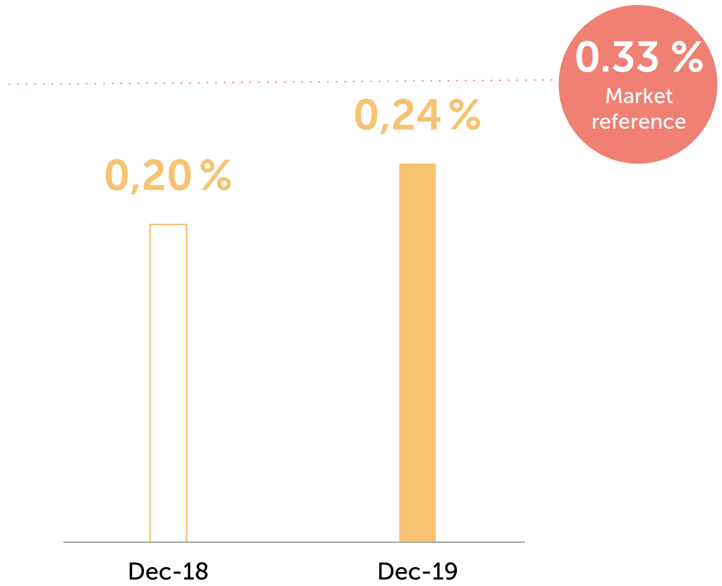
The cost of risk remains at reduced levels

The cost of risk was placed at 0.24 %, below the market average thanks to the prudence applied in granting financing.

Provisions and contributions
(millions of euros)



Evolution of cost of risk
(%)



EVOLUTION of the business

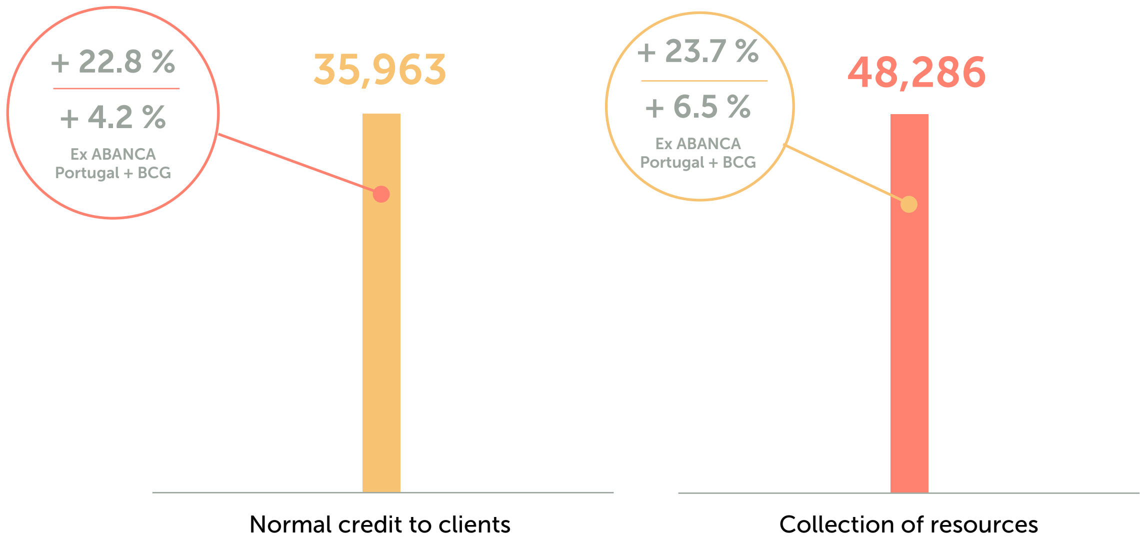
102-7

The turnover surpasses €85 Bn

2019 was characterized by a significant increase in turnover with an increase of 22.9 %, exceeding 85 billion euros. This milestone was reached thanks to the combination of the organic growth generated by commercial dynamism, especially in the segment of financing for SMEs and self-employed persons, and the business contribution of the acquisitions of Deutsche Bank PCB Portugal and Banco Caixa Geral.

This turnover was possible thanks to a balanced behaviour of loans to clients, which increased 22.8 % to 35,963,000,000, and fundraising, which it did by 23.7 % to 48,286,000,000 euros. Removing the effect of the latest corporate operations, the entity also maintains its dynamism, registering growths of 4.2 % in normal client loans and 6.5 % in fundraising.

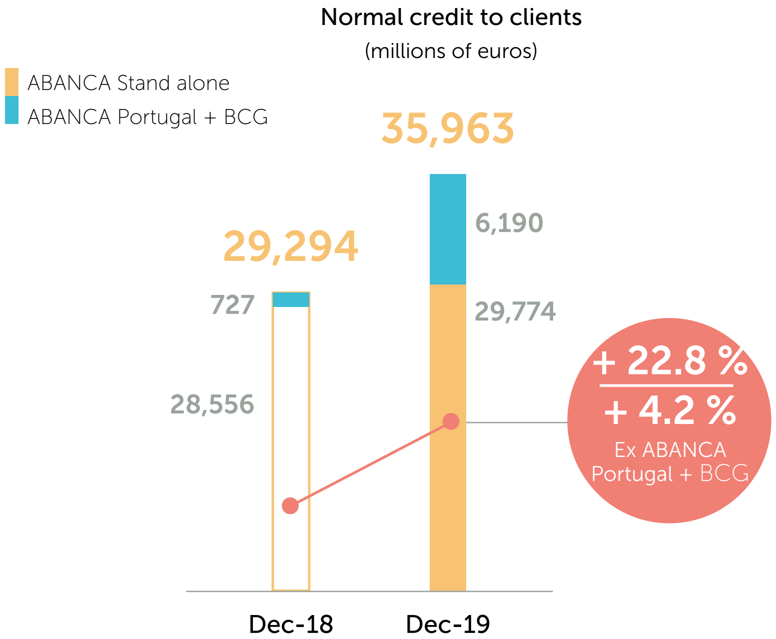
Main magnitudes
(millions of euros)

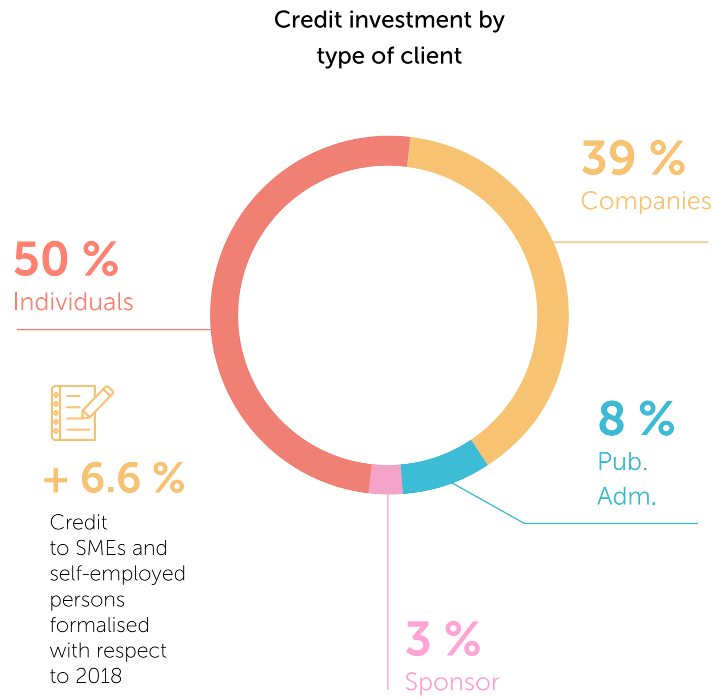


Data from 2018 uniform with 2019 taking into account the absorption of the holding.

The normal credit portfolio increases 22.8 %

Financing to the productive fabric continued to appear as one of the bank's top priorities. The loan to SMEs and self-employed persons formalised in 2019, estimated at 2.2 billion euros, grew by 6.6 % compared to the previous year.





/Sources new formalisations Statement 1-2 dec-19 for new production of ABANCA stand alone credit.

Increase of market quotas

This dynamism has allowed ABANCA to increase its market shares in both Spain and Portugal, reinforcing ABANCA's profile as an Iberian bank.

Leader in Galicia

GALICIA

42.3 %

deposits.

+141pb vs. 2018

34.4 %

credit.

+203pb vs. 2018

Increase of quotas

SPAIN

2.9 %

deposits.

+19pb vs. 2018

2.6 %

credit.

+36pb vs. 2018

1st in the international investment fund segment

PORTUGAL

32.9 %

foreign investment funds.

/Source: Statement FI 132.E and Bank of Spain. Data on September 3019. Includes Banco Caixa Geral.

Increases 57.9 % the resources off balance sheet

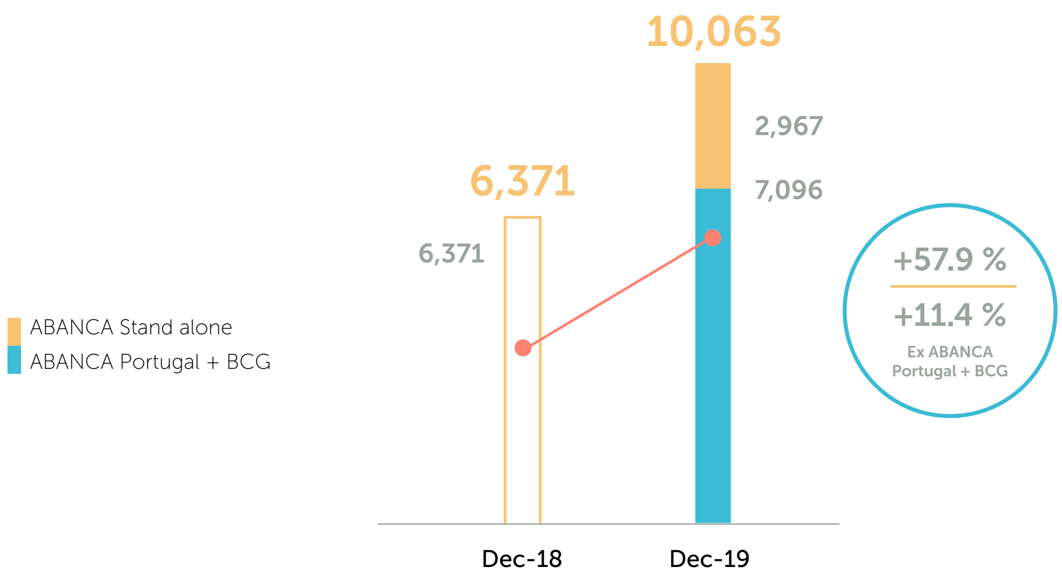
The structure of client resources, meanwhile, shows an increasing weight off balance sheet, which increased by 57.9 %, 11.4 % when eliminating the effect of Portugal and Banco Caixa Geral. In terms of profitability for the client, it should be noted that 9 out of 10 funds marketed by ABANCA remained above the level of its competitors.

€227 M
net subscriptions of investment funds.

9/10
investment funds present profitability above that of their competitors.

+ 6 pb
equity managed.

Resources off balance sheet
(millions of euros)

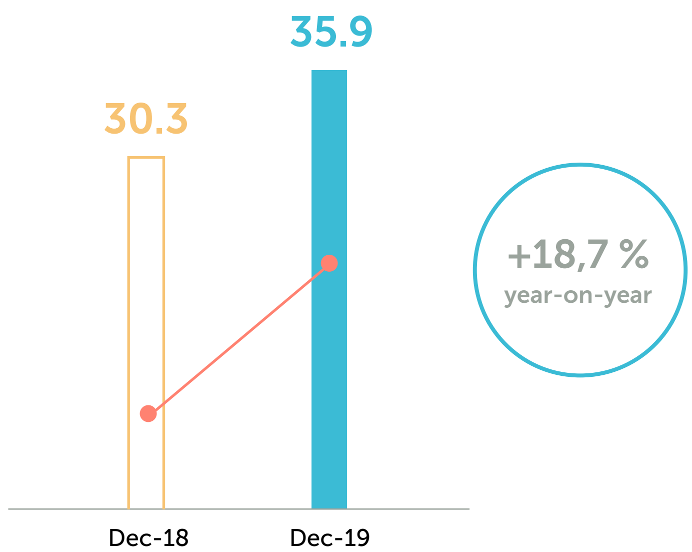


/ Source investment funds: last available information: INVERCO (nov. 2019) of ABANCA stand alone.

Increases 18.7 % in new production of general insurance

The new production of general incurance increases 18.7 %. By branches, protected payment insurance premiums increased by 53 %, health insurance premiums by 36 %, business insurance premiums by 19 % and death insurance premiums by 17 %. The Flat Insurance Rate, the bank's leading product in the insurance market, registered a growth of 15 % in the number of clients with more than 5 contracted policies.

New production general insurances
(millions of euros)



+ 19 %
company insurance premiums.

+ 36 %
health insurance premiums.

+ 17 %
death insurance premiums.

+ 53 %
protected payment insurance premiums.

+ 15 %
clients with more than 5 polices at a flat rate.

More than 425,000 new clients join ABANCA in 2019

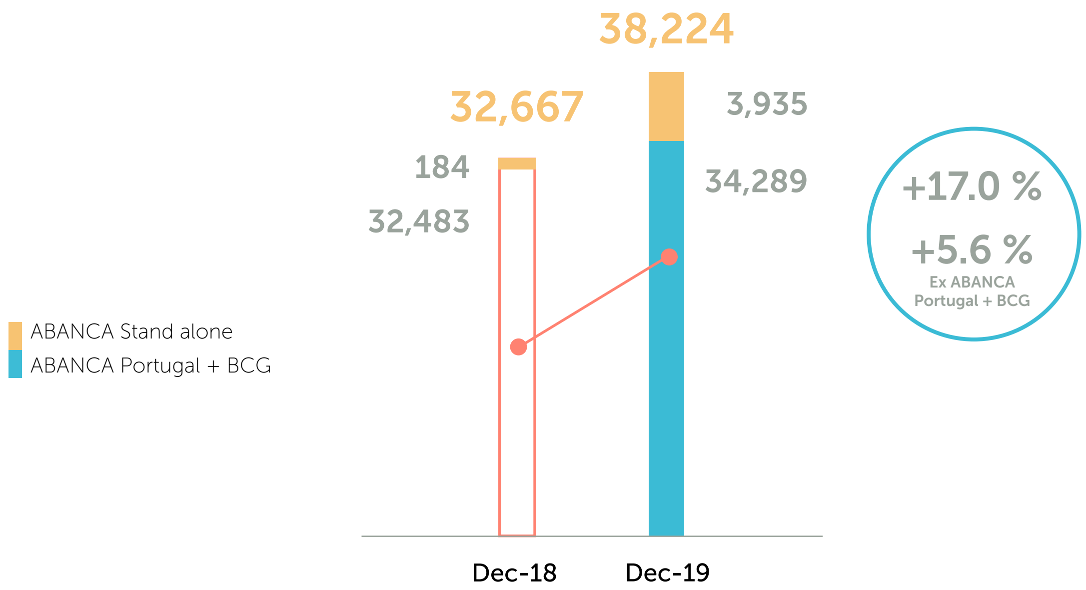
More than 425,000 new clients joined ABANCA in 2019, half of which did so through the integrations of Deutsche Bank PCB Portugal and Banco Caixa Geral España. Other activity indicators that also grew significantly are the number of debit and credit cards (+19.3 %) and point of sale terminals (+20.5 %).

225,351
New clients during 2019.

+

200,000
new clients coming from the incorporations of DB Portugal and Banco Caixa Geral.

Client deposits
(millions of euros)



+ 19.3 %
Issuance of debit/ credit cards.

+ 20.5 %
Issuance of POS.

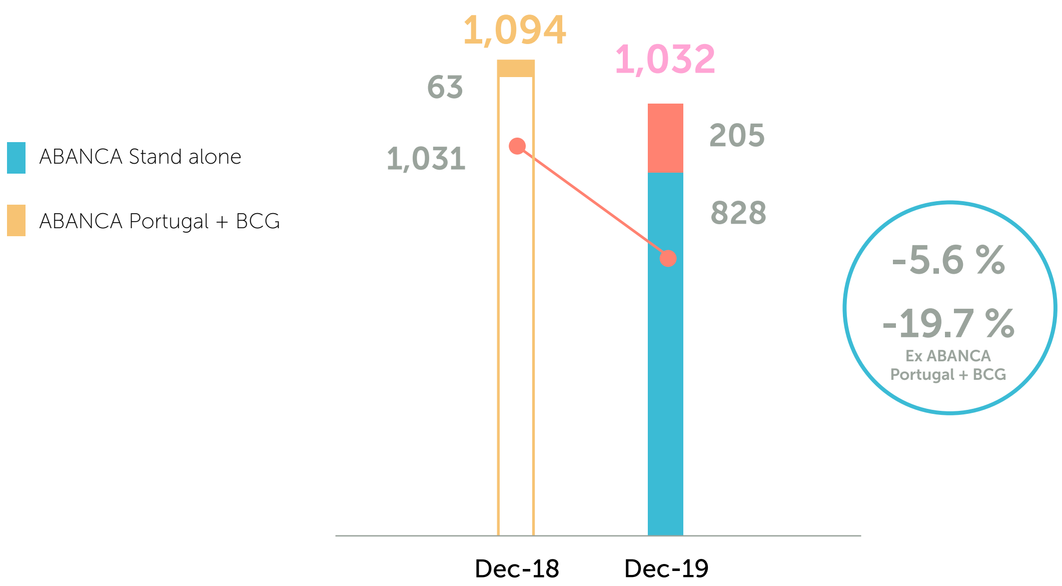
QUALITY of risk, solvency and liquidity

103-3

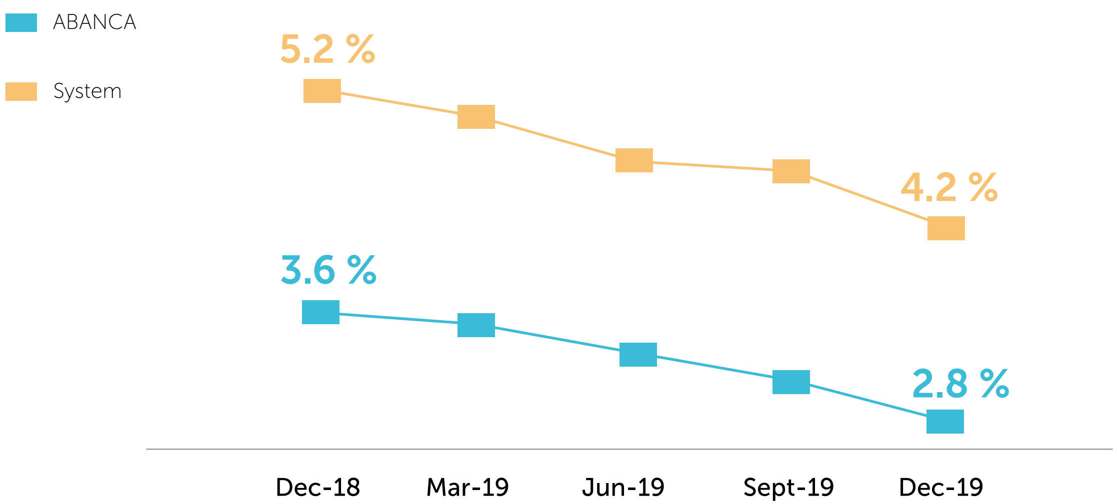
ABANCA places its default ratio at 2.8 %, 33 % below the sector average

The entity registered a new decrease in its level of doubtful balances in 2019, amounted to 5.6 % in the entity as a whole, thus placing the default rate at 2.8 %, 33 % below the Spanish average.

Evolution of doubtful balances
(millions of euros)



Evolution of default rate (%)



Data from 2018 uniform with 2019 taking into account the absorption of the holding/System: Estimate based on last available date according to Bank of Spain data: nov 19.

Top entity in coverage of non-performing assets

ABANCA is the leading entity for coverage of non-performing assets, with a total coverage rate of 58.8 %. The default coverage rate is 57.5 %, while the foreclosure coverage rate is 60.4 %.

COVERAGE DEFAULT

57.5 %

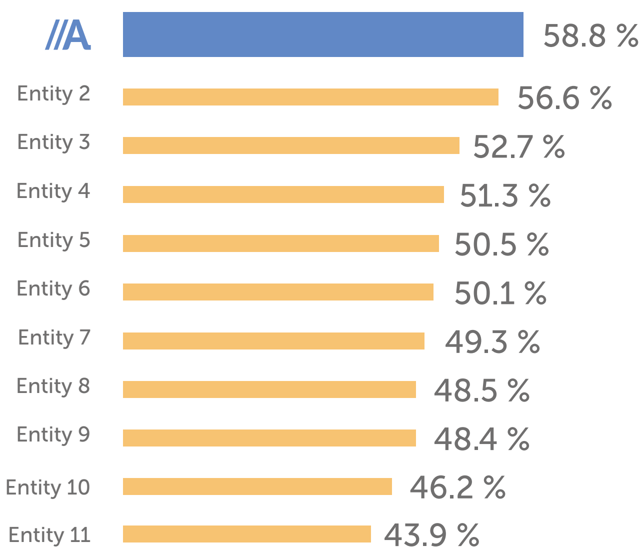
TOTAL COVERAGE

58.8 %

COVERAGE FORECLOSURES

60.4 %

Coverage of non-performing assets

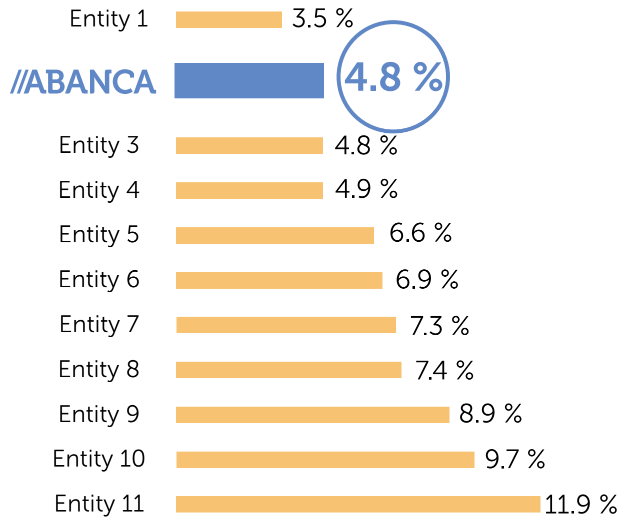


/Comparison source: Information reported by entities in September 2019.

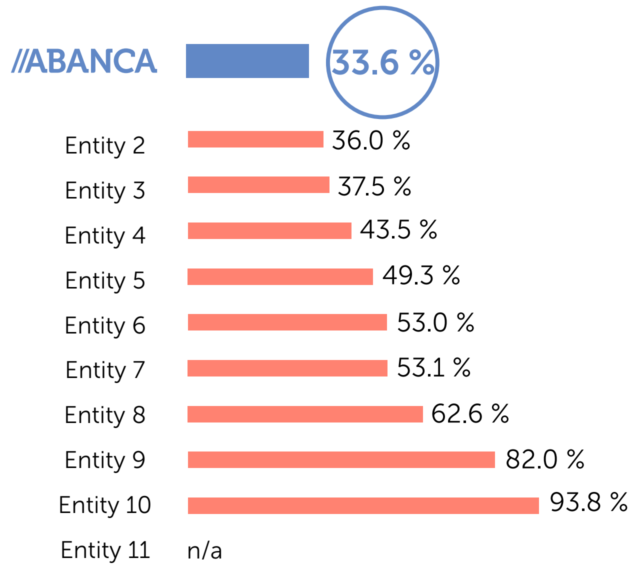
ABANCA is among the most healthy entities in the Spanish system

The combined action of both factors, the reduction of non-performing assets, on the one hand, along with the high levels of coverage and capital, on the other hand, place ABANCA as the entity with the best Texas ratio in the system (33.6 %). ABANCA is one of the healthiest entities in the Spanish financial sector.

NPA ratio
Non-performing assets / (Gross credit + Foreclosures)



Texas Ratio
Non-performing assets / Coverage + Capital)



System: Information reported by entities in September 2019.

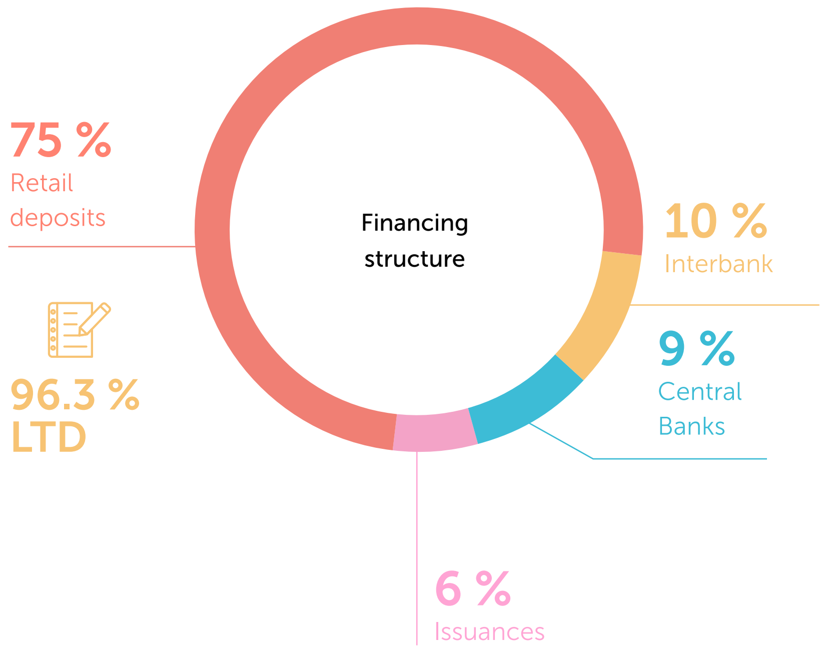
Comfortable liquidity position based on retail deposits

The entity maintains a financing structure based on retail deposits, with a ratio of loans to deposits (LTD) of 96.3 %. The entity has a liquidity of 14,590 million euros between issuance capacity of bonds and liquid assets, which allows it to cover more than double the expected issuance maturities. On the other hand, the NSFR stable net financing ratios and LCR liquidity coverage were placed, respectively, at 127 % and 217 %, thus complying with the Basel III regulatory requirements.

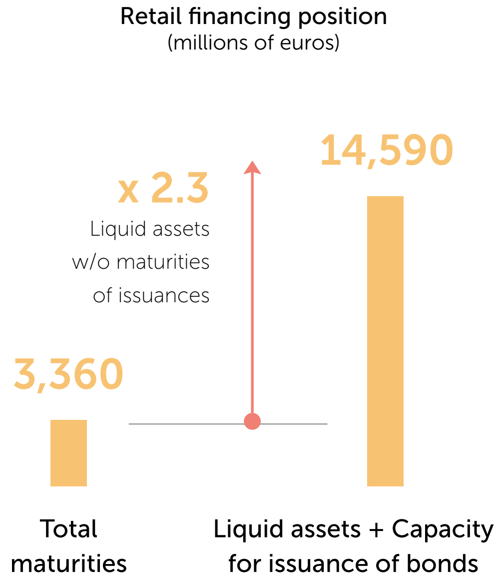
127 % NSFR
NET STABLE FUNDING RATIO

217 % LCR
LIQUIDITY COVERAGE RATIO

COMPLYING WITH BASEL III



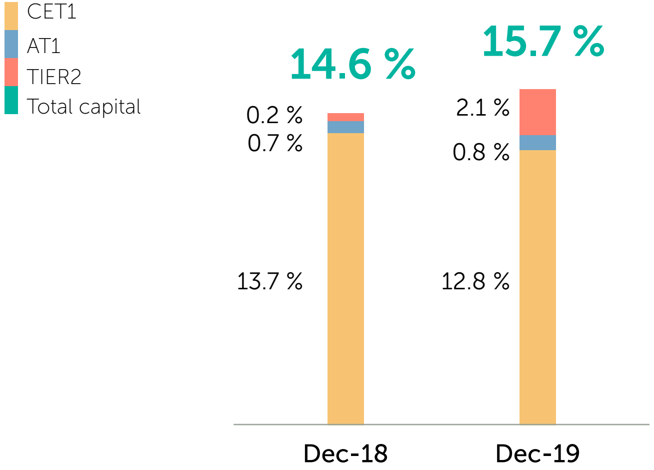
96.3 % LTD



Strong capital position with more than €1 Bn surplus over regulatory minimums

ABANCA has a high level of capitalisation, with a 1.231 billion surplus over the requirements in terms of CET1. The total capital ratio stood at 15.7 % at the end of 2019, with a surplus of 344 p.b. over the requirements. The highest quality capital ratio, CET1, stood at 12.8 %, with a surplus of 401 p.b. over the requirements. Following the recent October 2019 issuance, ABANCA has already covered the subordinated debt buffer Tier 2 (2 % w/o RWA) required.

Capitalisation structure



401 p.b.
ON CET1 CAPITAL REQUIREMENTS

344 p.b.
ON TOTAL CAPITAL REQUIREMENTS

€1,231 Bn
ON CET1 CAPITAL REQUIREMENTS

€1,057 Bn
ON TOTAL CAPITAL REQUIREMENTS

MREL REQUIREMENTS

Following the recent October 2019 issuance , **ABANCA has already covered the subordinated debt buffer Tier 2** (2 % w/o APR) required.

ECONOMIC value generated and distributed

ABANCA's objective of contributing to the development of its environment is translated into a commitment that is acquired from its dual financial and social aspects. The Economic Value Generated by ABANCA in 2019 amounted to 1,057.3 million euros, +14.1 % higher than the amount in 2018. For its part, the Distributed Economic Value was placed at 736.4 million euros, with an annual increase of 83.8 million euros (+12.8 %). Including the amount channelled through the Foundation, the Total Distributed Economic Value was placed at 746.5 million euros, with an annual increase of +13.5 %.

The larger generation of Economic Value has allowed us to allocate a higher distributed cost to the company, as well as generate a higher Retained Economic Value (310.8 million euros, +15.5 % more than in 2018), which has been used to capitalise the entity.

Generated, distributed and retained economic value (201-1)

(thousands of euros)	Dec. 2017	Dec. 2018	Dec. 2019
Gross Margin	811,150	1,050,554	910,836
Profits from the retirement of assets not classified as non-current for sale	24,752	9,579	43,492
Goodwill [2]	0	0	231,679
Provision to allowances	52,724	-38,912	-35,384
Profits of non-current assets for sale	38,128	36,103	-50,309
Generated Economic Value	926,754	1,057,324	1,100,314
Suppliers - General administrative costs (except taxes)	177,738	196,954	195,635
Employees - Personnel expenses	314,996	319,450	356,564
Pub. Adm. - Profit taxes + taxes in Gen. admin. costs [1]	11,009	43,162	35,692
Shareholders - Dividends	146,830	172,166	350,752
Community (without Foundation)	2,052	4,694	7,453
Distributed Economic Value	652,625	736,426	946,096
Foundation	5,080	10,100	10,100
Total Distributed Economic Value	657,705	746,526	956,196
Retained Economic Value	269,049	310,798	144,118

[1] Includes the amount of profit taxes without considering activation of DTAs. Does not include indirect taxes (VAT, PTT/Stamp Duty) or Social Security contributions, included in the General Administration and Personnel Expenses headings.

[2] In 2019, Goodwill derived from the acquisition of Deutsche Bank PCB Portugal and Banco Caixa Geral, S.A. is included. for calculating the generated economic value.

TAX commitment

103-2, 103-3

ABANCA's tax strategy is aligned with the values that make up the entity's corporate culture and the low tax risk profile which has traditionally characterised the Group in managing compliance with its tax obligations, all in accordance with the strategic principles on ABANCA's tax policy is developed, the main characteristics of which are established below.

ABANCA and their group believe that the payment of taxes, in accordance with applicable regulations, is an especially relevant part of their contribution to the economies of countries and jurisdictions where they carry out their activity. Therefore, it undertakes to responsibly pay taxes in the different jurisdictions in which it operates.

ABANCA carries out its economic activities in compliance with applicable regulations and conventions to avoid double taxation according to reasonably interpreted criteria, taking into account the spirit and purpose of current legislation and the true economic essence of the facts, acts or business carried out.

Generally, ABANCA avoids operating in tax jurisdictions that do not comply with the transparency standards required by the OECD and other international organisations. In the exceptional case of ABANCA's performance of operations in territories classified as tax havens, they will respond to the effective performance of economic activity and value generation, without wishing to transfer results to these jurisdictions to obtain a reduction in the tax burden or to undermine transparency.

The Board of Directors will be appropriately informed of the tax policies applied by the company, at least on an annual basis. However, in the case of operations or matters that must be submitted for approval by the Board of Directors or an equivalent body, the tax consequences will be reported when they constitute a relevant factor that may have a significant fiscal impact.

ABANCA has the objectives of having its relations with the Tax Administration be constructive, loyal and based on professionalism, collaboration, good faith and mutual trust, so as to reduce conflicts arising from the interpretation of the applicable regulations through a reciprocal cooperative relationship.

To ensure the effective development and application of the principles that make up the strategy and fiscal policy of ABANCA and their Group, control mechanisms are established to ensure compliance with current tax regulations and the aforementioned principles. Said work includes all the areas and businesses of the different geographical areas and jurisdictions in which the entity operates, which allows it to achieve integrated management of its tax positions in a coherent way and in concert with the rest of ABANCA's risks.

(Thousands of euros)

Country	Expense for corporate tax	Profit before tax	Gross margin	No. employees (*)	Activity	Main company
Spain	25,098	387,612	847,004	5,458	Financial	ABANCA Corporación Bancaria, S.A.
Portugal	-455	64,734	56,482	570	Financial	ABANCA Corporación Bancaria, S.A.
Switzerland	532	2,304	4,819	9	Financial	ABANCA Corporación Bancaria, S.A.
USA	0	-3,043	1,168	15	Financial	ABANCA Corporación Bancaria, S.A.
Other	0	-21,406	1,363	6	Financial	S. Común México, S.A., de CV SOFOM ENR

** Includes representative offices and employees of Sogevinus S.G.P.S., S.A., Espacios Termolúdico, S.A., and Natur Hotel SPA Allariz, S.A.*

annexes

MAIN
metrics

Employees

Total number and distribution by gender (405-1)

	2017	2018	2019
No. of employees	4,352	4,903	5,788

Distribution by gender (%) (405-1)

	2017	2018	2019
- Women	50.5 %	51.2 %	50.3 %
- Men	49.5 %	48.8 %	49.7 %

Geographic distribution abroad (405-1)

	2018	2019
Portugal	59	396
Germany	1	1
Brazil	4	4
France	2	2
England	3	3
Mexico	12	14
Panama	2	2
United States	10	13
Switzerland	13	12
Venezuela	1	2
Total	107	449

Breakdown of staff by location and gender (405-1)

	2017	2018	2019			
	Total	Total	Women	Men	Total	%
Galicia, Asturias and León	3,666	4,075	2,252	2,010	4,262	73.6 %
Rest of Spain	614	721	442	635	1,077	18.6 %
Abroad	72	107	216	233	449	7.8 %
Total	4,352	4,903	2,910	2,878	5,788	100 %

Breakdown of staff by category and gender (405-1)

	2017	2018	2019			
	Distrib.	Distrib.	Women	Men	Total	Distrib.
Senior management	0.3 %	0.3 %	1	12	13	0.2 %
Management	1.5 %	1.4 %	14	70	84	1.5 %
Middle management	23.2 %	21.7 %	450	971	1,421	24.6 %
Experts	75.0 %	76.6 %	2,445	1,825	4,270	73.8 %

Breakdown of staff by location and age (405-1)

	2017			2018			2019		
	< 30	30-50	> 50	< 30	30-50	> 50	< 30	30-50	> 50
Galicia, Asturias and León	2.3 %	78.2 %	19.5 %	8.8 %	71.0 %	20.2 %	8.6 %	68.3 %	23.1 %
Rest of Spain	0.8 %	85.7 %	13.5 %	4.6 %	78.6 %	16.8 %	5.0 %	71.9 %	23.1 %
Abroad	6.9 %	84.7 %	8.3 %	10.3 %	79.4 %	10.3 %	4.2 %	78.6 %	17.1 %
Total	2.2 %	79.3 %	18.5 %	8.2 %	72.3 %	19.5 %	7.6 %	69.8 %	22.6 %

Distribution of new additions by age and location (401-1)

	2019		
	< 30	30-50	> 50
Galicia, Asturias and León	76 %	24 %	0 %
Rest of Spain	55 %	40 %	6 %
Abroad	13 %	79 %	8 %
Total	67 %	31 %	2 %

Distribution of new additions by location and gender (401-1)

	2019	
	Women	Men
Galicia, Asturias and León	56 %	44 %
Rest of Spain	42 %	58 %
Abroad	29 %	71 %
Total	51 %	49 %

Average turnover by location and gender (401-1)

	2017	2018	2019		
	Total	Total	Women	Men	Total
Galicia, Asturias and León	2.7 %	4.6 %	4.9 %	4.8 %	4.8 %
Rest of Spain	6.4 %	5.9 %	5.2 %	7.9 %	6.8 %
Abroad	4.2 %	5.6 %	0.9 %	6.4 %	3.8 %
Total	3.2 %	4.8 %	4.6 %	5.6 %	5.1 %

Average turnover by age and gender (401-1)

	2017	2018	2019		
	Total	Total	Women	Men	Total
Under 30 years old	6.4 %	26.4 %	29.6 %	32.7 %	31.0 %
Between 30 and 50 years old	2.0 %	2.7 %	2.4 %	3.4 %	2.9 %
Over 50 years old	8.0 %	3.6 %	2.3 %	4.1 %	3.4 %
Total	3.2 %	4.8 %	4.6 %	5.6 %	5.1 %

Table 2.1.2 (102-8)

			2017			2018			2019		
			W	M	Total	W	M	Total	W	M	Total
SENIOR MANAGEMENT	Total	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	1	4	5	1	5	6	1	4	5
		> 50 years old	0	8	8	0	7	7	0	8	8
	Indefinite contract	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	1	4	5	1	5	6	1	4	5
		> 50 years old	0	8	8	0	7	7	0	8	8
	Temporary contract	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	0	0	0	0	0	0	0	0	0
		> 50 years old	0	0	0	0	0	0	0	0	0
MANAGEMENT	Total	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	10	34	44	10	29	39	11	41	52
		> 50 years old	2	22	22	3	28	31	3	29	32
	Indefinite contract	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	10	34	44	10	29	39	11	41	52
		> 50 years old	2	22	24	3	28	31	3	29	32
	Temporary contract	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	0	0	0	0	0	0	0	0	0
		> 50 years old	0	0	0	0	0	0	0	0	0

Note: All the contracts are full time.

Table 2.1.2 (102-8)

			2017			2018			2019		
			W	M	Total	W	M	Total	W	M	Total
MIDDLE MANAGEMENT	Total	< 30 years old	0	0	0	1	1	2	2	3	5
		Between 30-50 years old	244	591	835	270	589	859	387	692	1079
		> 50 years old	29	156	185	37	168	205	61	276	337
	Indefinite contract	< 30 years old	0	0	0	1	1	2	2	3	5
		Between 30-50 years old	244	591	835	270	589	859	387	692	1,079
		> 50 years old	29	156	185	37	168	205	61	276	337
	Temporary contract	< 30 years old	0	0	0	0	0	0	0	0	0
		Between 30-50 years old	0	0	0	0	0	0	0	0	0
		> 50 years old	0	0	0	0	0	0	0	0	0
EXPERTS	Total	< 30 years old	172	139	311	222	177	399	238	196	434
		Between 30-50 years old	1,659	1,035	2,694	1,628	1,014	2,642	1,794	1,110	2,904
		> 50 years old	292	325	617	337	376	713	413	519	932
	Indefinite contract	< 30 years old	49	45	94	79	62	141	89	77	166
		Between 30-50 years old	1,617	1,010	2,627	1,587	991	2,578	1,750	1,084	2,834
		> 50 years old	292	325	617	337	376	713	412	517	929
	Temporary contract	< 30 years old	123	94	217	143	115	258	149	119	268
		Between 30-50 years old	42	25	67	41	23	64	44	26	70
		> 50 years old	0	0	0	0	0	0	1	2	3

Note: All the contracts are full time.

Table 2.1.3 - Number of dismissals by gender, age and professional classification

		2017			2018			2019		
		Women	Men	Total	Women	Men	Total	Women	Men	Total
Senior Management	Under 30 years old	0	0	0	0	0	0	0	0	0
	Between 30 and 50 years old	0	0	0	0	0	0	0	0	0
	Over 50 years old	0	0	0	0	0	0	0	0	0
	Total	0	0	0	0	0	0	0	0	0
Management	Under 30 years old	0	0	0	0	0	0	0	0	0
	Between 30 and 50 years old	0	0	0	1	0	1	0	0	0
	Over 50 years old	0	0	0	0	1	1	0	6	6
	Total	0	0	0	1	1	2	0	6	6
Middle management	Under 30 years old	0	0	0	0	0	0	0	0	0
	Between 30 and 50 years old	2	1	3	0	1	1	1	9	10
	Over 50 years old	0	1	1	1	3	4	3	13	16
	Total	2	2	4	1	4	5	4	22	26
Experts	Under 30 years old	1	0	1	0	2	2	1	0	1
	Between 30 and 50 years old	5	8	13	9	11	20	6	15	21
	Over 50 years old	1	1	2	4	16	20	5	7	12
	Total	7	9	16	13	29	42	12	22	34

Table 2.1.7 - Employees with disabilities (405-1)

	2017			2018			2019		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Employees with disabilities	24	27	51	30	36	66	39	37	76

Table 2.1.4 - Average remuneration by category

	2017	2018	2019		
	Total	Total	Women	Men	Total
Management	107,832	112,382	99,177	119,899	116,613
Middle management	55,378	55,645	48,302	56,888	54,165
Experts	55,378	38,160	36,058	40,484	37,946

Only takes into account the fixed salary.

Table 2.1.4 - Average remuneration by gender and age

	2017			2018			2019		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Under 30 years old	18,506	19,510	18,946	19,406	19,911	19,627	20,237	21,212	20,677
Between 30 and 50 years old	38,648	48,098	43,037	38,846	48,154	43,138	38,485	46,890	42,318
Over 50 years old	45,676	60,334	54,613	46,454	61,018	55,223	46,063	56,784	52,839

Only takes into account the fixed salary.

Table 2.1.5 – Wage Gap (405-2)

The wage gap is -4.76 % calculated as the difference of the wage medians (fixed and variable remuneration) between women and men, expressed as a percentage of the wage median for men based on a multiple linear regression model that at identical characteristics differentiates salary solely on the basis of gender. The multiple linear regression model explains salary as fixed and variable remuneration, based on the gender variable and other relevant factors: age, seniority, contract, level of responsibility, company, location and area. Homogeneous groups of less than 30 people have been excluded because there is not enough of a sample to infer statistically strong conclusions. Due to updating the calculation criteria, the 2019 data is not directly comparable with that reported in 2018.

Table 2.1.6 - Average remuneration of managers

	2017			2018			2019		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Remuneration of senior management (*)			354,000			386,000			375,285
Remuneration of directors	232,000	252,887	249,867	190,500	276,000	258,000	237,846	278,800	266,419

* For data protection purposes, due to having only one woman in top management, this information is not broken down by gender. For the calculation of the amount in the year 2019, the fixed, variable and in-kind remuneration of the 14 people considered senior management personnel has been taken into account.

(401-3)	2017 Total	2018 Total	2019 Women	2019 Men	2019 Total
Right to maternity/paternity leave	238	192	107	83	190
Right exercised	97.5 %	95.8 %	100.0 %	100.0 %	100.0 %
Reinstatements	97.8 %	100.0 %	100.0 %	100.0 %	100.0 %
Leaves from the previous year which remain in the company 12 months later	98.7 %	100.0 %	98.0 %	97.6 %	97.8 %

Average hours of annual training (404-1)

	2017 Total	2018 Total	2019 Women	2019 Men	2019 Total
Senior management and management	32	39	29	23	24
Middle management	59	54	46	49	48
Experts	46	57	55	46	51
Total	50	56	54	46	50

Total hours of annual training

	2017 Total	2018 Total	2019 Total
Senior management and management	2,567	3,366	2,572
Middle management	62,698	57,938	70,493
Experts	152,182	224,982	232,578
Total	217,446	286,286	305,643

Employees that have received training on money laundering prevention (205-2)

	2017				2018				2019			
	Galicia, Asturias and León	Spain	Abroad	Total	Galicia, Asturias and León	Spain	Abroad	Total	Galicia, Asturias and León	Spain	Abroad	Total
Senior management	11	2	0	100.0 %	11	2	0	100.0 %	12	1	0	100.0 %
Management	56	5	1	93.0 %	58	6	2	94.3 %	62	5	2	82.0 %
Middle management	843	119	20	98.0 %	853	130	20	94.1 %	861	138	29	72.0 %
Experts	2.685	457	44	98.0 %	2,636	444	41	83.1 %	2,825	472	56	79.0 %
Total	3,595	853	65	97.0 %	3,558	582	63	85.7 %	3,760	616	87	77.0 %

Employees who have received a performance evaluation (%) (404-3)

	2017	2018	2019		
	Total	Total	Women	Men	Total
Senior management	100 %	100 %	100 %	100 %	100 %
Management	100 %	97 %	93 %	96 %	95 %
Middle management	100 %	99 %	98 %	98 %	98 %
Experts	97 %	95 %	92 %	91 %	92 %
Total	98 %	96 %	93 %	94 %	93 %

Safety and health (403-2)

	2017	2018	2019		
	Total	Total	Women	Men	Total
Absenteeism due to accidents					
Days of absenteeism	1,173	853	1,874	333	2,207
No. accidents	46	58	52	18	70
with leave from work	22	24	31	11	42
in itinere	18	17	20	7	27
without leave from work	24	34	21	7	28
in itinere	8	10	10	1	11
Absenteeism due to common illness					
Days of absenteeism	38,015	32,170	29,507	16,765	46,272
No. accidents	1,135	1,292	910	455	1,365
Casualties in connection with work					
No. victims	0	0	0	0	0

Rates of frequency and severity

	2018		2019	
	Women	Men	Women	Men
Rate of frequency of accidents (1)	0.2	1.4	2.3	0.9
Rate of severity (2)	0.0	0.0	0.1	0.1

(1) Rate of frequency = Number of accidents with leave * 10^6 / (Estimated hours worked in period Selected * Worker average).
(2) Rate of severity = Days off * 1000 / (Estimated hours worked in period selected * Worker average).

Employees covered by collective agreement by country (%) (102-41)

	2017	2018	2019
Spain	100 %	100 %	100 %
Portugal	100 %	100 %	100 %
Germany	0 %	0 %	0 %
Brazil	100 %	100 %	100 %
France	100 %	100 %	100 %
England	0 %	0 %	0 %
Mexico	0 %	0 %	0 %
Panama	0 %	0 %	0 %
United States	--	100 %	100 %
Switzerland	100 %	100 %	100 %
Venezuela	0 %	0 %	0 %
Total	99.8 %	99.6 %	99.6 %

Responsible purchases

Invoicing of foreign suppliers (€)

	2017		2018		2019	
	Invoicing	%	Invoicing	%	Invoicing	%
United States	€1,608,163.00	1.0 %	€2,269,549.69	1.3 %	€1,620,864.20	0.7 %
Ireland	€1,415,208.00	0.8 %	€2,238,174.50	1.2 %	€105,235.16	0.1 %
United Kingdom	€923,353.00	0.6 %	€860,995.98	0.5 %	€2,010,677.26	0.9 %
Belgium	€337,150.00	0.2 %	€418,768.72	0.2 %	€566,847.66	0.3 %
Portugal	€33,337.00	0.0 %	€114,742.21	0.1 %	€451,135.83	0.2 %
Germany	€32,000.00	0.0 %	€1,390,377.34	0.8 %	€24,281.98	0.0 %
Italy	€20,973.00	0.0 %	€3,647.00	0.0 %	€398.00	0.0 %
Sweden	€18,150.00	0.0 %	€24,200.00	0.0 %	€18,150.00	0.0 %
Argentina	€8,067.00	0.0 %	€11,923.16	0.0 %	€8,754.23	0.0 %
Netherlands	€6,474.00	0.0 %	€1,185.80	0.0 %	€2,117.50	0.0 %
Luxembourg	€6,189.00	0.0 %	€6,614.18	0.0 %	€7,269.43	0.0 %
France			€3,710,165.38	2.1 %	€3,369,183.25	1.6 %
Mexico	€654.00	0.0 %	€24,335.88	0.0 %	€299,998.80	0.1 %
Total	€4,409,718.00	2.6 %	€11,074,679.84	6.1 %	€8,484,913.30	3.9 %

GRI CONTENT INDEX

102-55

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
GRI 101: Foundation 2016							
General Disclosures							
Profile of the organisation							
GRI 102: General Disclosures 2016	102-1	Name of the organization	ABANCA Corporación Bancaria, S.A.		Yes. Pg. 172		
	102-2	Activities, brands, products, and services	40, 42 The corporate object of ABANCA Corporación Bancaria, S.A. include: a) the undertaking of all kinds of activities, operations and services typical of the banking business and in general or related directly or indirectly with the same and which are permitted by current legislation, including the rendering of investment services and auxiliary services and the undertaking of insurance brokerage activities; and b) the acquisition, possession, enjoyment and disposal of all kinds of transferable securities.		Yes. Pg. 172		
	102-3	Location of headquarters	Cantón Claudino Pita, 2 Betanzos (A Coruña).		Yes. Pg. 172		
	102-4	Location of operations	41, 48		Yes. Pg. 172		
	102-5	Ownership and legal form	20		Yes. Pg. 172		
	102-6	Markets served	ABANCA carries out its activity according to the standards and regulations of Spain; practically all its income and expenses are generated in this market.		Yes. Pg. 172		
	102-7	Scale of the organization	7, 131, 134		Yes. Pg. 172		
	102-8	Information on employees and other workers	152, 153		Yes. Pg. 172	6	8
	102-9	Supply chain	64		Yes. Pg. 172		
	102-10	Significant changes to the organization and its supply chain	37		Yes. Pg. 172		
	102-11	Precautionary Principle or approach	114		Yes. Pg. 172		
	102-12	External initiatives	13, 14		Yes. Pg. 172		
	102-13	Membership of associations	14		Yes. Pg. 172		
Strategy							
GRI 102: General Disclosures 2016	102-14	Statement from senior decision-maker	5		Yes. Pg. 172		
	102-15	Key impacts, risks, and opportunities	34, 121		Yes. Pg. 172		
Ethics and integrity							
GRI 102: General Disclosures 2016	102-16	Values, principles, standards, and norms of behavior	30		Yes. Pg. 172	10	16
	102-17	Mechanisms for advice and concerns about ethics	32		Yes. Pg. 172	10	16

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
General Disclosures							
Governance							
GRI 102: General Disclosures 2016	102-18	Governance structure	20		Yes. Pg. 172		
	102-19	Delegating authority	25, 27		Yes. Pg. 172		
	102-20	Executive-level responsibility for economic, environmental, and social topics	29		Yes. Pg. 172		
	102-21	Consulting stakeholders on economic, environmental, and social topics	15		Yes. Pg. 172		16
	102-22	Composition of the highest governance body and its committees	21, 25		Yes. Pg. 172		5, 16
	102-23	Chair of the highest governance body	21		Yes. Pg. 172		16
	102-24	Nominating and selecting the highest governance body	21, 26		Yes. Pg. 172		5, 16
	102-25	Conflicts of interest	30 ABANCA has a Code of Ethics and Conduct in force that requires professionals of the organisation to declare the existence or lack of existence of conflicts of interest with respect to the code of ethics. There are three declarations: lack of conflict, participation in companies or activities outside of ABANCA and possible conflict to state situations other than participation in companies or activities that could entail a conflict. All employees have the duty to keep their information up to date on possible conflicts of interest, issuing the corresponding declaration through ABANCA's ethical channel. The internal regulations on conduct impose obligations on declaring conflicts to certain professionals of the organisation to control the possible use of insider information in financial markets.		Yes. Pg. 172		16
	102-26	Role of highest governance body in setting purpose, values, and strategy	28		Yes. Pg. 172		
	102-27	Collective knowledge of highest governance body	28		Yes. Pg. 172		4
	102-28	Evaluating the highest governance body's performance	30		Yes. Pg. 172		
	102-29	Identifying and managing economic, environmental, and social impacts	28		Yes. Pg. 172		16
	102-30	Effectiveness of risk management processes	27		Yes. Pg. 172		
	102-31	Review of economic, environmental, and social topics	21		Yes. Pg. 172		
	102-32	Highest governance body's role in sustainability reporting	The Board of Directors, the highest decision-making body of the Company, save for matters reserved to the authority of the General Shareholders' Meeting, approves, being indelegable, the big lines of the policies and strategies of the Company. The Board of Directors is also in charge of approving the sustainability memory.		Yes. Pg. 172		
	102-33	Communicating critical concerns	25		Yes. Pg. 172		
	102-34	Nature and total number of critical concerns	28		Yes. Pg. 172		
	102-35	Remuneration policies	28		Yes. Pg. 172		
	102-36	Process for determining remuneration	28		Yes. Pg. 172		
	102-37	Stakeholders' involvement in remuneration	28		Yes. Pg. 172		16

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
General Disclosures							
GRI 102: General Disclosures 2016	102-38	Annual total compensation ratio	The ratio is 11.86 for ABANCA España. The data was calculated using the effective remuneration received in 2019.		Yes. Pg. 172		
	102-39	Percentage increase in annual total compensation ratio	8.24 %		Yes. Pg. 172		
Stakeholder engagement							
GRI 102: General Disclosures 2016	102-40	List of stakeholder groups	15		Yes. Pg. 172		
	102-41	Collective bargaining agreements	158 99.6 % of ABANCA employees and investees, which make up its financial scope, are covered by a collective agreement applicable depending on the activity sector to which they belong and which regulates their working schedule. In all countries with a significant presence, there is an applicable collective agreement (Spain, Portugal, Switzerland, USA, France and Brazil), there being no application of an agreement but yes state laws (similar to the workers' statute of Spain) in countries such as Panama, Great Britain, Germany, Mexico and Venezuela.		Yes. Pg. 172	3	8
	102-42	Identifying and selecting stakeholders	15		Yes. Pg. 172		
	102-43	Approach to stakeholder engagement	16, 61		Yes. Pg. 172		
	102-44	Key topics and concerns raised	16, 62		Yes. Pg. 172		
Reporting practice							
GRI 102: General Disclosures 2016	102-45	Entities included in the consolidated financial statements	More information in annex I of the Consolidated Annual Accounts.		Yes. Pg. 172		
	102-46	Defining report content and topic Boundaries	17		Yes. Pg. 172		
	102-47	List of material topics	17		Yes. Pg. 172		
	102-48	Restatements of information	There has been no reformulation of the information with respect to the 2019 Memory.		Yes. Pg. 172		
	102-49	Changes in reporting	3		Yes. Pg. 172		
	102-50	Reporting period	The 2019 calendar year.		Yes. Pg. 172		
	102-51	Date of most recent report	2018.		Yes. Pg. 172		
	102-52	Reporting cycle	Annual.		Yes. Pg. 172		
	102-53	Contact point for questions regarding the report	ABANCA Corporación Bancaria, S.A. Cantón Claudino Pita, 2 Betanzos 981 187 000 www.abanca.com		Yes. Pg. 172		
	102-54	Claims of reporting in accordance with the GRI Standards	This report was created according to the exhaustive option of the GRI standards.		Yes. Pg. 172		
	102-55	GRI content index	160		Yes. Pg. 172		
	102-56	External assurance	14		Yes. Pg. 172		
Material topics							
Profitability and solvency							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	35, 38, 126		Yes. Pg. 172		
	103-3	Evaluation of the management approach	35, 122, 126		Yes. Pg. 172		

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	145		Yes. Pg. 172		8
	201-2	Financial implications and other risks and opportunities due to climate change	13, 114		Yes. Pg. 172	7	13
	201-3	Defined benefit plan obligations and other retirement plans	75		Yes. Pg. 172		
	201-4	Financial assistance received from government	During 2019, the ABANCA Group has credited €330,599.61 of our investment in training through FUNDAE.		Yes. Pg. 172		
Good governance							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	30		Yes. Pg. 172		
	103-3	Evaluation of the management approach	30		Yes. Pg. 172		
GRI 415: Public Policy 2016	415-1	Political contributions	As stated in the Code of Ethics and Conduct, ABANCA will guide its activity with public representatives under the principle of political neutrality, and will avoid being used as an active or passive instrument for the violation of current legislation or for the achievement of illegitimate or inappropriate purposes.		Yes. Pg. 172	10	16
Ethics and integrity							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	30		Yes. Pg. 172	10	16
	103-3	Evaluation of the management approach	32		Yes. Pg. 172		
GRI 205: Anti-corruption 2016	205-1	Operations assessed for risks related to corruption	30		Yes. Pg. 172	10	16
	205-2	Communication and training about anti-corruption policies and procedures	30, 157		Yes. Pg. 172	10	16
	205-3	Confirmed incidents of corruption and actions taken	It is certified that in the year 2019, three cases of undue appropriation were detected in ABANCA and one of use of confidential information for the personal benefit of an employee of Banco Caixa Geral. All of them ended with the imposition of a sanction of disciplinary dismissal.		Yes. Pg. 172	10	16
Risk management and regulatory compliance							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	118, 146 According to their Code of Ethics, ABANCA undertakes to compete honestly and faithfully in the markets. Furthermore, it undertakes to carry out the contracting of suppliers in a framework of free competition and beyond any connection or interference outside of the interests of ABANCA.		Yes. Pg. 172		
	103-3	Evaluation of the management approach	118, 146		Yes. Pg. 172		
GRI 206: Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and and monopoly practices	Through the channels available to that effect, there is no record of having been summonsed in relation to legal proceedings for reasons related to monopolistic practices and practices against free competition. Likewise, having checked the computer archives of the bank, none of the legal processes lodged against ABANCA have this procedural purpose.		Yes. Pg. 172		16
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	Through the channels available to that effect, there is no record of having received any notification on the imposition of significant fines or sanctions related to compliance with environmental regulations.		Yes. Pg. 172	8	16

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
GRI 419: Socioeconomic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	Through the channels available to that effect, ABANCA has not received any sanctions from the Bank of Spain on matters of transparency regulations with consumers.		Yes. Pg. 172		16
Human rights							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components			Yes. Pg. 172	1	1-17
	103-3	Evaluation of the management approach			Yes. Pg. 172		
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	170 During 2019, no case of discrimination has been registered through the channels available.		Yes. Pg. 172		5, 6, 16
GRI 412 Human Rights Assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	64		Yes. Pg. 172	1	
	412-2	Employee training on human rights policies or procedures	77		Yes. Pg. 172	1	
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	No significant investment contracts and agreements which include clauses on Human Rights in 2019 due to believing that there are no risks that make it necessary.		Yes. Pg. 172	2	
Sustainable finances							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	51		Yes. Pg. 172		1, 8, 10, 12, 16
	103-3	Evaluation of the management approach	51		Yes. Pg. 172		
"OTHER INDICATORS: Portfolio"	FS7	Monetary value of products and services designed to offer a specific social benefit for every line of business broken down by objectives	9-10, 44, 51		Yes. Pg. 172		1, 8, 9, 10
	FS8	Monetary value of products and services designed to offer a specific environmental benefit for every line of business brokwn down by objectives	9-10, 44, 51		Yes. Pg. 172		
"OTHER INDICATORS: Ownership of assets"	FS10	Percentage and number of companies in the portfolio interacted with on social and environmental matters	9-10, 51		Yes. Pg. 172		10
	FS11	Percentage of assets subject to positive or negative social or environmental analysis	9-10, 51		Yes. Pg. 172		10
Quality and client experience							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17, 61, 62		Yes. Pg. 172		
	103-2	The management approach and its components	57, 61, 62		Yes. Pg. 172		1, 8, 10, 12, 16
	103-3	Evaluation of the management approach	57, 61, 62		Yes. Pg. 172		
GRI 416: Customer Health and Safety 2016	416-1	Assessment of the health and safety impacts of product and service categories	57, 61, 62		Yes. Pg. 172		
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	ABANCA has no knowledge of having committed any breach of the regulation and voluntary codes regarding the impacts of the products and services on health and safety during their life cycle.		Yes. Pg. 172		16
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	57		Yes. Pg. 172		12, 16

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
GRI 417: Marketing and Labeling 2016	417-2	Incidents of non-compliance concerning product and service information and labeling	During 2019, no sanction has been received on matters of regulations and transparency with consumers.		Yes. Pg. 172		16
	417-3	Incidents of non-compliance concerning marketing communications	During 2019, no breach has occurred giving rise to significant sanctions for this reason.		Yes. Pg. 172		
Products and services adapted to the client's needs							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	42		Yes. Pg. 172		1, 8, 10, 12, 16
	103-3	Evaluation of the management approach	42		Yes. Pg. 172		
"OTHER INDICATORS: Product portfolio"	FS6	"Breakdown of the portfolio for every line of business, by specific region, size (microcompany, SME, large) and sectors"	42		Yes. Pg. 172		1, 8, 9
OTHER INDICATORS: Local communities	FS13	Accessibility in areas with low population density or disadvantaged places	42, 55		Yes. Pg. 172		1, 8, 10
	FS14	Initiatives to improve access of disadvantaged groups to financial services	55		Yes. Pg. 172		1, 8, 10
Responsible purchases							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	64		Yes. Pg. 172		12
	103-3	Evaluation on the management approach	64		Yes. Pg. 172		
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers			Yes. Pg. 172		
GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	66-67		Yes. Pg. 172		
	308-2	Negative environmental impacts in the supply chain and actions taken	66-67		Yes. Pg. 172		
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	66-67		Yes. Pg. 172		
	414-2	Negative social impacts in the supply chain and actions taken	66-67		Yes. Pg. 172		
Digital banking and omnichannel							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	55-56, 126		Yes. Pg. 172		9
	103-3	Evaluation of the management approach	55-56, 126		Yes. Pg. 172		
Computer security and data protection							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
	103-2	The management approach and its components	ABANCA has the obligation of protecting personal and private information of its clients and employees as much as possible, as indicated in their Code of Ethics and in current legislation on matters of intimacy, data protection and bank secrecy. Data protection and the right to intimacy are considered in all areas of management at the entity, which has strict internal regulations and carries out specific training courses for its workforce. Likewise, ABANCA enters into the General Data Protection Registry all files under their responsibility with personal data, and all employees have access to a security document which establishes the measures necessary to ensure the security of the files with personal data and the processing centres, etc. Furthermore, it does not allow access to checking clients' data which is not strictly necessary for the job. If possible and carried out, it would be subject to sanction, even if it has no external significance.		Yes. Pg. 172		
	103-3	Evaluation of the management approach	30				
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Through the channels available to the effect, ABANCA has not received sanctions by the Spanish Data Protection Agency (AEPD).		Yes. Pg. 172		16
Energy efficiency							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	114		Yes. Pg. 172	8	
	103-3	Evaluation of the management approach	114		Yes. Pg. 172		
GRI 302: Energy 2016	302-1	Energy consumption within the organization	115		Yes. Pg. 172	7, 8	7, 8, 12
	302-2	Energy consumption outside of the organization	One of the most relevant energy consumptions outside of the organisation are consumptions associated with employee transport. The data on CO_2 emissions caused by these activities are reflected in the indicator.		Yes. Pg. 172	8	7, 8, 12
	302-3	Energy intensity	115		Yes. Pg. 172	8	7, 8, 12
	302-4	Reduction of energy consumption	115		Yes. Pg. 172	8, 9	7, 8, 12
	302-5	Reductions in energy requirements of products and services		Not applicable. Due to the characteristics of the sector of ABANCA's activity, in which financial products and services are therefore offered without energy requirements. associated with their production.	Yes. Pg. 172	8, 9	7, 8, 12
Climate change							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	115		Yes. Pg. 172	8	
	103-3	Evaluation of the management approach	115		Yes. Pg. 172		
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	115		Yes. Pg. 172	7, 8	13, 14, 15
	305-2	Energy indirect (Scope 2) GHG emissions	115		Yes. Pg. 172	7, 8	13, 14, 15
	305-3	Other indirect (Scope 3) GHG emissions	115		Yes. Pg. 172	7, 8	13, 14, 15
	305-4	GHG emissions intensity	115		Yes. Pg. 172	8	13, 14, 15
	305-5	Reduction of GHG emissions			Yes. Pg. 172	8, 9	13, 14, 15
	305-6	Emissions of ozone-depleting substances (ODS)		Not applicable. Due to the characteristics of the sector of ABANCA's activity, in which financial products and services are offered, which are not associated with the use or production of ozone depleting substances.	Yes. Pg. 172	7, 8	13

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
GRI 305: Emissions 2016	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		Not applicable. Due to the characteristics of the sector of ABANCA's activity, in which financial products and services are offered, therefore without significant atmospheric emissions associated with their production.	Yes. Pg. 172	7, 8	12, 13, 14, 15
Talent attraction and retention							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	71, 73, 78		Yes. Pg. 172		
	103-3	Evaluation of the management approach	71, 73, 78		Yes. Pg. 172		
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	1,3 As established in the Collective Agreement of ABANCA Corporación Bancaria, S.A., the initial base salary for any worker on the workforce, Regardless of their gender, is 1.3 times that of the Minimum Interprofessional Salary, applying the increases established in the agreement itself.		Yes. Pg. 172	6	1, 5, 8
	202-2	Proportion of senior management hired from the local community	29		Yes. Pg. 172	6	8
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	150-151		Yes. Pg. 172	6	5, 8
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	75		Yes. Pg. 172		8
	401-3	Parental leave	156		Yes. Pg. 172	6	5, 8
GRI 402: Labor/Management Relations 2016	402-1	Minimum notice periods regarding operational changes	The minimum deadline is that established by the law of each country.		Yes. Pg. 172	3	8
GRI 403: Occupational Health and Safety 2016	403-1	Occupational health and safety management system	99.6 % of the workers have legal workers' representation in matters of safety and health.		Yes. Pg. 172		8
	403-2	Hazard identification, risk assessment, and incident investigation	158		Yes. Pg. 172		3, 8
	403-3	Occupational health services	76		Yes. Pg. 172		3, 8
	403-4	Worker participation, consultation, and communication on occupational health and safety	All the topics related to the Safety and Health of workers of ABANCA Corporación Bancaria are addressed within the Safety and Health Committee which holds their meetings every three months. In addition, work tables may be established to address more specific topics or projects, such as the Protocol on pregnancy, recent birth or breastfeeding which was presented and approved by the Safety Committee in 2019. The company has prevention officers that act as workers' representatives with specific functions in matters of risk prevention in the workplace.		Yes. Pg. 172		8
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	156		Yes. Pg. 172	6	4, 5, 8
	404-2	Programs for upgrading employee skills and transition assistance programs	71-72		Yes. Pg. 172		8
	404-3	Percentage of employees receiving regular performance and career development reviews	157		Yes. Pg. 172	6	5, 8

GRI STANDARD		DISCLOSURE	PAGE NUMBERS OR URL	OMISSIONS	EXT. VERIF.	PRINCIPLE OF THE GLOBAL COMPACT	SDG
Material topics							
Diversity, equality and reconciliation							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	77		Yes. Pg. 172		
	103-3	Evaluation of the management approach	77		Yes. Pg. 172		
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	21, 23, 149, 150, 154		Yes. Pg. 172	6	5, 8
	405-2	Ratio of basic salary and remuneration of women to men	155		Yes. Pg. 172	6	5, 8, 10
Generation of wealth and promotion of the company's activity							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	42, 83		Yes. Pg. 172		
	103-3	Evaluation of the management approach	42, 83		Yes. Pg. 172		
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	32, 83, 105		Yes. Pg. 172		2, 5, 7, 9, 11
	203-2	Significant indirect economic impacts	44, 66, 83, 96		Yes. Pg. 172		1, 2, 3, 8, 10, 17
Social action and volunteering							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	83, 95, 105		Yes. Pg. 172		1, 2, 3, 8, 10, 17
	103-3	Evaluation of the management approach	83, 95, 105		Yes. Pg. 172		
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	83, 95, 105		Yes. Pg. 172	1	
	413-2	Operations with significant actual and potential negative impacts on local communities	32		Yes. Pg. 172	1	1, 2
Financial inclusion							
GRI 103: Management Approach 2016	103-1	Explanation of the material topic and its Boundary	16-17		Yes. Pg. 172		
	103-2	The management approach and its components	83		Yes. Pg. 172		1,5, 8
	103-3	Evaluation of the management approach	83		Yes. Pg. 172		

TABLE OF CONTENTS REQUIRED BY LAW 11/2018

Contents of Law 11/18	Materiality	Location in this report	Contents GRI
General information			
Description of the busienss model	Material	40-42	GRI 102-2 GRI 102-7
Markets where it operates	Material	41-50	GRI 102-3 GRI 102-4 GRI 102-6
Objectives and strategies of the organisation	Material	35	GRI 102-14
Main factors and trends which may affect its future evolution	Material	34-35, 38	GRI 102-14
Risk management	**Material**	**118-123**	**GRI 102-15**
Reporting framework used	**Material**		**GRI 102-54**
Materiality analysis	**Material**	**16**	**GRI 102-46** **GRI 102-47**
Environmental matters			
Management approach		**113 -116**	**GRI 102-15** **GRI 103-2**
Detailed general information	**Material**	**n.a.**	**n.a.**
Current and foreseeable effects of the company's activity on the environment and, where applicable, health and safety	Material	54	GRI 102-15
Procedures of environmental evaluation or certification	Material	50	GRI 103-2
Resources dedicated to the prevention of environmental risks	Material	51	GRI 103-2
Application of the precautionary principle	Material	114	GRI 102-11
Amount of provisions amd guarantees for environmental risks	Material	54	GRI 103-2
Contamination	**Non-material**	**n.a.**	**n.a.**
Circular economy and waste prevention and management	**Non-material**	**n.a.**	**n.a.**
Sustainable use of resources			
Water consumption and water supply according to local limitations	Non-material	n.a.	n.a.
Consumption of raw materials and measures adapted to improve the efficiency of their use	Non-material	n.a.	n.a.
Direct and indirect consumption of energy	Material	115	GRI 302-1 GRI 302-2
Measures taken to improve energy efficiency	Material	113-116	GRI 302-4 GRI 103-2
Use of renewable energies	Material	113-116	GRI 302-1
Climate change			
Greenhouse gas emissions	Material	115	GRI 305-1 GRI 305-2 GRI 305-3
Measures to adapt to climate change	Material	113-116	GRI 103-2 GRI 201-2
Reduction goals to reduce greenhouse gas emissions	Material	118-123	GRI 305-5
Protection of biodiversity	**Non-material**	**n.a.**	

Contents of Law 11/18	Materiality	Location in this report	Contents GRI
Social and personnel issues			
Management approach		**77**	**GRI 102-15 GRI 103-2**
Employment			
Total number and distribution of employees by country, sex, age and professional classification	Material	111, 112, 131	GRI 102-8 GRI 405-1
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Wage gap	Material	155	GRI 103-3 GRI 405-2
Average remuneration of board members and directors broken down by sex	Material	155	GRI 103-2 GRI 405-2
Implementation of work disconnection policies	Material	75	GRI 103
Employees with disability	Material	154	GRI 405-1
Organisation of work			
Organisation of working time	Material	153	GRI 103-2
Number of absenteeism hours	Material	158	GRI 403-2
Measures to facilitate reconciliation	Material	77	GRI 401-3
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Percentage of employees covered by collective agreement by country	Material	70, 158	GRI 102-41
Balance sheet of collective agreements	Material	167	GRI 403-4
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Policies implemented in the training field	Material	71, 72	GRI 103-2 GRI 404-2
Total training hours by professional category	Material	72	GRI 404-1
Universal accessibility of people with disabilities	**Material**	**55, 73**	**GRI 103-2**
Equality			
Measures adopted to promote equal treatment and opportunities among women and men	Material	77	GRI 103-2
Equality plans	Material	77	GRI 103-2
Policy against all kinds of discrimination	Material	77	GRI 103-2
Respect for human rights			
Management approach			**GRI 102-15 GRI 103-2**
Application of procedures of due diligence	Material	30 -32	GRI 412-2 GRI 412-3
Measures for preventing and managing possible abuses committed	Material	30-32	GRI 102-16 GRI 102-17 GRI 412-1 GRI 412-2

Contents of Law 11/18	Materiality	Location in this report	Contents GRI
Complaints due to cases of violation of human rights	Material	In 2019, no complaint has been received for the violation of human rights related to respect for freedom of association and the right to collective bargaining; the elimination of discrimination in employment and jobs; the elimination of forced or obligatory labour; the effective abolition of child labour.	GRI 103-2 GRI 406-1
Promotion of and compliance with the provisions of the fundamental conventions of the ILO	Material	31	GRI 103-2
Fight against corruption and bribery			
Management approach			**GRI 102-15 GRI 103-2**
Measures taken to prevent corruption and bribery	Material	30, 31	GRI 103-2 GRI 102-16 GRI 102-17 GRI 205-2 GRI 405-3
Measures to fight against money laundering	Material	31	GRI 103-2 GRI 102-16 GRI 102-17 GRI 405-2
Contributions to foundations and non-profit organisations	Material	140	GRI 201-1 GRI 102-13 GRI 415-1
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Management approach		**83, 95, 105, 113**	**GRI 102-15 GRI 103-2**
Commitments of the company to the environment			
Impact of the company's activity in employment and local development	Material	83, 95, 105	GRI 103-2 GRI 203-2 GRI 204-1
Impact of the company's activity on the local populations and in the territory	Material	83, 95, 105	GRI 103-2 GRI 413-1 GRI 413-2
Relations with the stakeholders of local communities	Material	15	GRI 102-43 GRI 413-1
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Subcontracting and suppliers			
Inclusion in the purchase policy of social, gender equality and environmental matters	Material	64-65	GRI 103-2
Consideration in relations with suppliers and subcontractors of social and environmental responsibility	Material	64-65	GRI 102-9 GRI 308-1 GRI 414-1
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Measures for the health and safety of consumers	Material	57, 61, 62	GRI 103-2 GRI 416-1
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Profits obtained country by country	Material	147	GRI 201-1
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Public grants received (country by country)	Material	163	GRI 201-4

VERIFICATION report

102-56

KPMG

KPMG Asesores, S.L.
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28046 Madrid

Independent Assurance Report on Memory on Corporate and Social Responsibility of Abanca Corporación Bancaria, S.A. and subsidiaries for the year 2019

(Free translation from the original in Spanish.
In case of discrepancy, the Spanish language version prevails.)

To the shareholders of Abanca Corporación Bancaria, S.A.:

We have been engaged by Abanca Corporación Bancaria, S.A. management to perform a limited assurance review of the accompanying Memory on Corporate and Social Responsibility for the year ended 31 December 2019 of Abanca Corporación Bancaria, S.A (hereinafter, the Parent Company) and subsidiaries (hereinafter, the Group), prepared in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards),in its comprehensive option and with the Sector Supplement "Financial Services" (hereinafter, the Report).

In addition, pursuant to article 49 of the Spanish Code of Commerce, we have performed a limited assurance review to verify that the Consolidated Non-Financial Information Statement (hereinafter NFIS) for the year ended 31 December 2019, of the Group, included in the Report which forms part of the Group's 2019 consolidated Directors' Report, has been prepared in accordance with the contents required by prevailing mercantile legislation.

The Report includes additional information to that required by GRI standards in its comprehensive option and prevailing mercantile legislation governing non-financial information that has not been the subject of our assurance engagement. In this regard, our work was limited only to providing assurance on the information contained in the "GRI Content Index" and the "Table of contents required by Law 11/2018" of the accompanying Report.

Director ´s responsibilities

Management of the Parent Company is responsible for the preparation and presentation of the Report in accordance with the GRI Standards in its comprehensive option, in accordance with each subject area in the "GRI Content Index" of the aforementioned Report.

The Board of Directors of the Parent Company is responsible for the contents and the authorization for issue of the NFIS which has been prepared in accordance with the contents required by prevailing mercantile legislation and selected GRI Standards, in accordance with each subject area in the "Table of contents required by Law 11/2018" of the aforementioned Report.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the Report is free from material misstatement, whether due to fraud or error.

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The directors of the Parent Company are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for preparing the Report was obtained.

Our Independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 (ISQC1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team was comprised of professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed.

We conducted our review engagement in accordance with International Standard on Assurance Engagements, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 (Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the Performance Guide on assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management, as well as of the different units of the Parent Company that participated in the preparation of the Report, in the review of the processes for compiling and validating the information presented in the Report and in the application of certain analytical procedures and sample review testing described below:

- Meetings with the Parent Company personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the Report based on the materiality analysis performed by the Parent Company and described in the section "ANALYSIS on materiality" considering the content required by prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the Report for 2019.
- Review of the information relating to the risks, policies and management approaches applied in relation to the material aspects presented in the Report for 2019.

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- Corroboration, through sample testing, of the information relative to the content of the Report for 2019 and whether it has been adequately compiled based on data provided by information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

a.) The Memory on Corporate and Social Responsibility of Abanca Corporación Bancaria, S.A. and subsidiaries for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the GRI Standards, in its comprehensive option, and the Sectorial Supplement "Financial Services", as described in point 102-54 of the GRI content index.

b.) The NFIS of Abanca Corporación Bancaria, S.A. and subsidiaries for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the contents included in prevailing mercantile legislation and with the GRI Standards selected, in accordance with each subject area in the "Table of contents required by Law 11/2018" of the Report.

Use and distribution

In accordance with the terms of our engagement, this Independent Assurance Report has been prepared for Abanca Corporación Bancaria, S.A. in relation to its Memory on Corporate and Social Responsibility and for no other purpose or in any other context.

In relation to the Consolidated NFIS, this report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on original in Spanish)

Patricia Reverter Guillot

16 de marzo de 2020

An edition by ABANCA

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Design and layout
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Verification
KPMG Asesores.

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To all the people of the different ABANCA and Afundación units who have collaborated in the preparation and review of the information collected in this publication.

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2020

ABANCA