Audit Report of Banco Cooperativo Español, S.A.

(Together with the Annual Accounts and Directors' Report of Banco Cooperativo Español, S.A. for the year ended 31 December 2020)

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

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

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of Banco Cooperativo Español, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Banco Cooperativo Español, S.A. (the "Company"), which comprise the balance sheet at 31 December 2020, the income statement, the statement of recognised income and expense, the statement of changes in equity and the cash flow statement for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2020, 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 to the accompanying annual accounts) 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 Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts in Spain pursuant to the legislation regulating the audit of accounts. 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.

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Entered into the Spanish Official Register of Auditors with number S0702, and the Spanish Institute of Registered Auditors' list of companies with reference No. 10. Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9.
Tax identification number (NIF): B-78510153

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

Key Audit Matters

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

Impairment of the loans and advances to other debtors portfolio (See notes 7 and 10 to the annual accounts)	
Key audit matter	*How the matter was addressed in our audit*
The Bank's portfolio of loans and advances to other debtors reflects a net balance of Euros 1,475,925 thousand at 31 December 2020, while allowances and provisions recognised at that date for impairment total Euros 23,161 thousand. The process of estimating the impairment of the loans and advances to other debtors portfolio due to credit risk under Banco de España Circular 4/2017 entails a significant and complex estimate, especially with regard to the identification and classification of exposures through loans that are under special monitoring or impaired, portfolio segmentation, and the use of significant assumptions such as the realisable value of the collateral associated with credit transactions. 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. The COVID-19 pandemic is having a negative effect on the economy and business activities but has been mitigated by the measures taken by the Spanish government (moratoriums, ICO guarantees, furloughs, etc.). The Bank has taken all these aspects into account in the quantification of the impairment of financial assets, increasing the uncertainty associated with their estimation.	In relation to the impairment of financial assets, we performed procedures to assess the concepts, criteria and methodologies defined, and carried out control tests and tests of detail on the Bank's analysis regarding the credit risk classification of financial instruments and on the estimated provisions for 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 relating to the control environment were focused on the following key areas: governance, accounting policies, refinancing and restructuring, monitoring of loans outstanding, the process of estimating allowances and provisions, and assessment 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: – 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 allowances and provisions recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Bank, analysing the completeness of the input balances for the process and assessing whether the calculation engine is functioning correctly. In carrying out our audit procedures, we took into consideration the impacts of COVID-19 and the government aid on the calculation of impairment. Lastly, we evaluated whether the disclosures in the notes to the annual accounts are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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Classification and measurement of financial instruments

See notes 6, 7, 8, 9, 10 and 24 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
The Bank has financial assets and liabilities measured and recognised at a fair value of Euros 3,478,846 thousand and Euros 1,932,310 thousand, respectively, on its balance sheet at 31 December 2020. Of these amounts, Euros 1,335,363 thousand and Euros 1,932,310 thousand, respectively, reflect the portion measured by the Bank using valuation techniques, as no quoted price in an active market was available (thus classified in level 2 or 3 for measurement purposes). For the purposes of measuring financial instruments, in the absence of a quoted price in an active market (level 2 and 3 financial instruments), determining the fair value of financial instruments requires a complex estimate using valuation techniques that may take into consideration market data that are neither directly nor indirectly observable, or complex pricing models which demand a high degree of subjectivity. As a result of the COVID-19 pandemic, volatility in the financial markets and in interest rates has increased, and there have been sharp declines in value, greater illiquidity of financial assets and higher credit risk for securities issuers, all of which has diminished the observability of certain market data needed to measure these financial instruments, making their measurement more complex. Due to the significance of the financial instruments, we consider there to be an inherent risk associated with determining the classification and measurement of these instruments.	In relation to the classification and measurement of financial instruments, we performed procedures to assess the concepts, criteria and methodologies defined, and carried out control tests and tests of detail on the Bank's analysis. Our procedures related to the control environment were focused on the following key areas and involved our market risk specialists: – Governance: identification of the market risk management framework and controls. – Transaction origination process: assessment of transaction settlement processes and custody at the depositary. – Measurement estimation process: assessment of the relevant valuation controls. – Databases: evaluation of the integrity, accuracy, quality and updating of the data and of the control and management process in place. With regard to the tests of detail on the measurement and classification of financial instruments, we selected a sample of the Bank's financial assets and assessed the appropriateness of their measurement and classification, taking the impacts of COVID-19 into consideration, as well as any impairment recognised at 31 December 2020. Lastly, we evaluated whether the disclosures in the notes to the annual accounts are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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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 business'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 computer 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. With respect to the automated controls over key processes, during our audit we determined the main business processes, and for those processes we identified the principal applications and automated controls in place for information flows. We analysed the threats and vulnerabilities associated with the integrity, accuracy and availability of information in those processes, and identified and tested the operating effectiveness of the controls implemented to mitigate these risks.

Other Information: Directors' Report

Other information solely comprises the 2020 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts, as well as assessing and reporting on whether the content and presentation of the directors' 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 in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2020 and the content and presentation of the report are in accordance with applicable legislation.

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Directors' and Audit Committee's Responsibility for the Annual Accounts

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

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

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

Auditor's Responsibilities for the Audit of the Annual Accounts

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 annual accounts.

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

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

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- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the audit committee of Banco Cooperativo Español, S.A. 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 entity's audit 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 audit committee of the entity, we determine those that were of most significance in the audit of the annual accounts 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.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated 26 April 2021.

Contract Period

We were appointed as auditor by the Shareholders at the Ordinary and Extraordinary General Meeting on 7 May 2020 for a period of one year, from the year commenced 1 January 2020.

Previously, we were appointed for a period of one year, by consensus of the Shareholders at their General Meeting, and have been auditing the annual accounts since the year commenced 1 January 2002.

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

(Signed on original in Spanish)

Pedro González Millán
On the Spanish Official Register of Auditors ("ROAC") with No. 20,175

26 April 2021

BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2020 and 2019

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

ASSETS	NOTE	In thousands of Euros 2020	2019
Cash, cash balances with central banks and other demand deposits	**5**	**3,276,588**	**1,558,271**
Financial assets held for trading	**6**	**1,362,316**	**994,275**
Derivatives		1,271,637	937,657
Equity instruments		3,153	3,258
Debt securities		87,526	53,360
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		3,516	-
Non-trading financial assets mandatorily at fair value through profit or loss	**7**	**9,815**	**12,898**
Equity instruments		-	-
Debt securities		2,068	2,068
Loans and advances		7,747	10,830
Other debtors		7,747	10,830
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		-	-
Financial assets designated at fair value through profit or loss	**8**	**529,057**	**107,696**
Debt securities		529,057	107,696
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		*368,152*	-
Financial assets at fair value through other comprehensive income	**9**	**1,577,497**	**2,329,929**
Equity instruments		42,596	40,007
Debt securities		1,534,901	2,289,922
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		*430,052*	*2,025,650*
Financial assets at amortised cost	**10**	**6,685,355**	**4,067,794**
Debt securities		2,446,446	1,173,045
Loans and advances		4,238,909	2,894,749
Credit institutions		2,770,731	1,547,843
Other debtors		1,468,178	1,346,906
Memorandum item: loaned or pledged as collateral with the right to sell or pledge		*618,354*	*11,000*
Derivatives - hedge accounting	**16**	**161**	**7**
Investments in subsidiaries, joint ventures and associates	**11**	**6,749**	**7,037**
Subsidiaries		6,749	7,037
Tangible assets	**12**	**4,394**	**4,888**
Fixed assets		4,394	4,888
For own use		4,394	4,888
Intangible assets	**13**	**3,079**	**2,930**
Other intangible assets		3,079	2,930
Tax assets	**21**	**41,984**	**30,585**
Current tax assets		2,887	699
Deferred tax assets		39,097	29,886
Other assets	**15**	**5,434**	**5,694**
Other assets		5,434	5,694
TOTAL ASSETS		**13,502,429**	**9,122,004**

BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2020 and 2019

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

LIABILITIES	**NOTE**	**In thousands of Euros**	
		2020	**2019**
Financial liabilities held for trading	**6**	**1,482,235**	**1,319,020**
Derivatives		1,482,235	1,319,020
Short positions		-	-
Financial liabilities designated at fair value through profit or loss	**8**	-	-
Deposits		-	-
Credit institutions		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost	**14**	**10,929,009**	**6,832,127**
Deposits		9,542,167	6,780,694
Central banks		1,008,852	366,098
Credit institutions		7,325,302	5,236,415
Other debtors		1,208,013	1,178,181
Other financial liabilities		1,386,842	51,433
Memorandum item: subordinated liabilities		-	-
Derivatives - hedge accounting	**16**	**450,075**	**345,676**
Provisions	**17**	**2,841**	**4,714**
Pensions and other post-employment defined benefit obligations		29	-
Procedural issues and pending tax litigation		2,379	4,101
Commitments and guarantees given		433	613
Tax liabilities	**21**	**20,330**	**22,665**
Current tax liabilities		752	583
Deferred tax liabilities		19,578	22,082
Other liabilities	**15**	**24,842**	**26,190**
TOTAL LIABILITIES		**12,909,332**	**8,550,392**

BANCO COOPERATIVO ESPAÑOL, S.A.

Balance Sheets at 31 December 2020 and 2019

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

EQUITY	NOTE	In thousands of Euros	
		2020	2019
Shareholders' equity	**19**	**584,868**	**543,924**
Share capital	19.1	129,318	122,034
Paid-in capital		129,318	122,034
Share premium	19.2	85,972	85,972
Retained earnings	20	333,234	308,519
Revaluation reserves	20	-	-
Other reserves	20	(5,921)	(4,610)
Profit for the year	3	42,265	32,009
(-) Interim dividends	3	-	-
Accumulated other comprehensive income	18	**8,229**	**27,688**
Items that will not be reclassified to profit or loss		(241)	1,168
Fair value changes of equity instruments measured at fair value through other comprehensive income		(241)	1,168
Items that may be reclassified to profit or loss		8,470	26,520
Hedging derivatives - cash flow hedging reserves [effective portion]		(883)	(1,683)
Fair value changes of debt instruments measured at fair value through other comprehensive income		9,353	28,203
TOTAL EQUITY		**593,097**	**571,612**
TOTAL LIABILITIES AND EQUITY		**13,502,429**	**9,122,004**
MEMORANDUM ITEM: Off-balance sheet exposures			
Loan commitments given	22	770,154	707,240
Financial guarantees given	22	13,097	24,240
Other commitments given	22	158,297	167,046

BANCO COOPERATIVO ESPAÑOL, S.A.

Income Statement for the years ended

31 December 2020 and 2019

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

	NOTE	In thousands of Euros	
		2020	**2019**
Interest income	25.a)	95,038	88,670
Financial assets at fair value through other comprehensive income		9,482	8,869
Financial assets at amortised cost		29,500	21,832
Other interest income		56,056	57,969
(Interest expenses)		(41,365)	(38,638)
INTEREST MARGIN	25.b)	**53,673**	**50,032**
Dividend income	26	10,434	1,570
Fee and commission income	27	27,977	27,516
(Fee and commission expenses)	27	(17,251)	(15,538)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	45	1,791
Other financial assets and liabilities	28	45	1,791
Gains or (-) losses on financial assets and liabilities held for trading, net	28	8,890	5,237
Other gains or (-) losses		8,890	5,237
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	(3,227)	(3,921)
Other gains or (-) losses		(3,227)	(3,921)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	28	-	2
Gains or (-) losses from hedge accounting, net	28	(34)	8
Exchange differences [gain or (-) loss], net	28	173	715
Other operating income	29	3,816	4,327
(Other operating expenses)	29	(3,115)	(3,929)
GROSS MARGIN		**81,381**	**67,810**
(Administrative expenses)	30	(26,673)	(25,332)
(Personnel expenses)		(17,658)	(16,528)
(Other administrative expenses)		(9,015)	(8,804)
(Depreciation and amortisation)	12 and 13	(2,999)	(2,818)
(Provisions) or reversal of provisions	31	179	(166)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net losses or (-) gains due to modification)	32	2,759	4,328
(Financial assets at fair value through other comprehensive income)		(206)	(210)
(Financial assets at amortised cost)		2,965	4,538
Gains or (-) losses on derecognition of non-financial assets, net		191	-
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**54,838**	**43,822**
(Tax expense or (-) income related to profit or loss from continuing operations)	21	(12,573)	(11,813)
PROFIT FOR THE YEAR	3	**42,265**	**32,009**
EARNINGS PER SHARE (in Euros)			
Basic	3	19.64	15.76
Diluted	3	19.64	15.76

BANCO COOPERATIVO ESPAÑOL, S.A.

Statement of Recognised Income and Expense for the years

ended 31 December 2020 and 2019

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

	NOTE	In thousands of Euros	
		2020	**2019**
Profit for the year		**42,265**	**32,009**
Other comprehensive income		**(19,459)**	**34,018**
Items that will be reclassified to profit or loss		(1,409)	3,417
Actuarial gains or (-) losses on defined benefit pension plans		-	-
Non-current assets and disposal groups held for sale		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(2,013)	4,882
Gains or (-) losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net		-	-
Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk		-	-
Income tax on items that will not be reclassified		604	(1,465)
Items that may be reclassified to profit or loss		(18,050)	30,601
Hedge of net investments in foreign operations [effective portion]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		-	-
Translation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges [effective portion]		1,143	(769)
Valuation gains or (-) losses taken to equity		1,143	(769)
Transferred to profit or loss		-	-
Transferred to the initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Hedging instruments [items not designated]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		(26,928)	44,485
Valuation gains or (-) losses taken to equity		(26,881)	46,309
Transferred to profit or loss		(47)	(1,824)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Income tax relating to items that may be reclassified to profit or (-) loss		7,735	(13,115)
Total comprehensive income for the year		**22,806**	**66,027**

BANCO COOPERATIVO ESPAÑOL, S.A.

Cash Flow Statement for the years ended

31 December 2020 and 2019

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

	NOTE	In thousands of Euros	
		2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES		**1,737,802**	**70,087**
Profit for the year		42,265	32,009
Adjustments to obtain cash flows from operating activities		16,157	10,302
Depreciation and amortisation		2,999	2,818
Other adjustments		13,158	7,484
Net increase in operating assets		(2,672,955)	(482,039)
Financial assets held for trading		(368,041)	(161,905)
Non-trading financial assets mandatorily at fair value through profit or loss		3,082	5,593
Financial assets designated at fair value through profit or loss		(421,361)	90,208
Financial assets at fair value through other comprehensive income		731,666	(9,909)
Financial assets at amortised cost		(2,618,146)	(406,023)
Other operating assets		(155)	(3)
Net increase/(decrease) in operating liabilities		4,364,497	517,478
Financial liabilities held for trading		163,215	465,188
Financial liabilities designated at fair value through profit or loss		-	(4,731)
Financial liabilities at amortised cost		4,096,883	(88,508)
Other operating liabilities		104,399	145,529
Income tax paid		(12,162)	(7,663)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(13,503)**	**12,126**
Payments		(13,791)	(5,869)
Tangible assets		(814)	(4,413)
Intangible assets		(1,839)	(1,456)
Investments in subsidiaries, joint ventures and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		-	-
Other payments relating to investing activities		(11,138)	-
Collections		288	17,995
Tangible assets		-	-
Intangible assets		-	-
Investments in subsidiaries, joint ventures and associates		288	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		-	-
Other collections relating to investing activities		-	17,995
CASH FLOWS FROM (USED) IN FINANCING ACTIVITIES		**(5,982)**	**4,207**
Payments		(5,982)	(14)
Dividends		(15)	(14)
Subordinated liabilities		-	-
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments relating to financing activities		(5,967)	-
Collections		-	4,221
Subordinated liabilities		-	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other receipts relating to financing activities		-	4,221
EFFECT OF EXCHANGE RATE FLUCTUATIONS		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,718,317**	**86,420**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**1,558,271**	**1,471,851**
CASH AND CASH EQUIVALENTS AT PERIOD END		**3,276,588**	**1,558,271**
COMPOSITION OF CASH AND CASH EQUIVALENTS AT YEAR END			
Cash		512	542
Cash equivalents in central banks		3,191,528	247,520
Other financial assets		84,548	1,310,209
Less: Bank overdrafts repayable on demand		-	-

BANCO COOPERATIVO ESPAÑOL, S.A.

Statement of Changes in Equity for the years ended 31 December 2020 and 2019

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

	(Thousands of Euros)										
	Share capital	Share premium	Equity instruments issued other than capital	Retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Balance at 31 December 2019	**122,034**	**85,972**	**-**	**308,519**	**-**	**(4,610)**	**-**	**32,009**	**-**	**27,688**	**571,612**
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see note 1.c)	-	-	-	-	-	-	-	-	-	-	-
Opening balance 1/1/2020	**122,034**	**85,972**	**-**	**308,519**	**-**	**(4,610)**	**-**	**32,009**	**-**	**27,688**	**571,612**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**42,265**	**-**	**(19,459)**	**22,806**
Other changes in equity	**7,284**	**-**	**-**	**24,715**	**-**	**(1,311)**	**-**	**(32,009)**	**-**	**-**	**(1,321)**
Issue of other equity instruments	7,284	-	-	(7,284)	-	-	-	-	-	-	-
Purchase of own shares		-	-	-	-	-	-	-	-	-	-
Share-based payments		-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)		-	-	(10)	-	-	-	-	-	-	(10)
Transfers between equity components		-	-	32,009	-	-	-	(32,009)	-	-	-
Other increases or (-) decreases in equity		-	-	-	-	(1,311)	-	-	-	-	(1,311)
Balance at 31 December 2020	**129,318**	**85,972**	**-**	**333,234**	**-**	**(5,921)**	**-**	**42,265**	**-**	**8,229**	**593,097**

BANCO COOPERATIVO ESPAÑOL, S.A.

Statement of Changes in Equity for the years ended 31 December 2019 and 2018

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

	(Thousands of Euros)										
	Share capital	**Share premium**	**Equity instruments issued other than capital**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(-) Own shares**	**Profit for the year**	**(-) Interim dividends**	**Accumulated other comprehensive income**	**Total**
Balance at 31 December 2018	**115,811**	**85,972**	**-**	**260,616**	**157**	**(4,260)**	**-**	**63,983**	**(10,000)**	**(6,330)**	**505,949**
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (see note 1.c)	-	-	-	-	-	-	-	-	-	-	-
Opening balance 1/1/2019	**115,811**	**85,972**	**-**	**260,616**	**157**	**(4,260)**	**-**	**63,983**	**(10,000)**	**(6,330)**	**505,949**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32.009**	**-**	**34.018**	**66.027**
Other changes in equity	**6,223**	**-**	**-**	**47,903**	**(157)**	**(350)**	**-**	**(63,983)**	**10,000**	**-**	**(364)**
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	6,223	-	-	47,917	(157)	-	-	(63,983)	10,000	-	-
Other increases or (-) decreases in equity	-	-	-	(14)	-	(350)	-	-	-	-	(364)
Balance at 31 December 2019	**122,034**	**85,972**	**-**	**308,519**	**-**	**(4,610)**	**-**	**32,009**	**-**	**27,688**	**571,612**

BANCO COOPERATIVO ESPAÑOL, S.A.

Notes to the annual accounts

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

1. Introduction, basis of presentation and other information

a) Introduction

Banco Cooperativo Español, S.A. (hereinafter the Bank or the Entity) is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bank was incorporated on 31 July 1990 and operates from its office located at Calle Virgen de los Peligros No. 4, in Madrid.

At 31 December 2020 and 2019, the Bank forms part of the Grucajrural Group (hereinafter the Group), the parent of which is Grucajrural Inversiones, S.L. Until 31 December 2017, the Bank was the parent of a group of financial institutions whose activity it controlled directly or indirectly, and together with which it formed the Banco Cooperativo Español Group, which is currently a financial sub-group of the Grucajrural Group.

The Bank contributes to the Deposit Guarantee Fund for Credit Institutions regulated by Royal Decree-Law 16/2011 of 14 October 2011. It has been entered in Banco de España's Special Registry of Banks and Bankers with number 0198.

b) Basis of Presentation of the Annual Accounts

The accompanying annual accounts for 2020 have been prepared in accordance with Banco de España Circular 4/2017 of 27 November 2017 and other provisions of the financial reporting framework applicable to the Bank, to give a true and fair view of the equity and financial position of the Bank at 31 December 2020 and the results of its operations and its cash flows for the year then ended.

Banco de España Circular 4/2017 to credit institutions on public and confidential financial reporting rules and formats came into force on 1 January 2018. The publication of Circular 4/2017 brought Circular 4/2004 and subsequent amendments thereto up to date. The purpose of this Circular was to adapt the accounting regime of Spanish credit institutions to the changes in European accounting legislation derived from the adoption of two new International Financial Reporting Standards (IFRS), namely IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

The publication of Banco de España Circular 2/2018 of 21 December 2016 updates Circular 4/2017 to reflect the latest developments in banking regulation, while remaining entirely compatible with the IFRS-EU accounting framework.

The Bank has opted to present separate statements, one reflecting the components of profit or loss, entitled the “income statement”, and another reflecting the components of other comprehensive income for the year, based on profit or loss for the year, entitled the “statement of recognised income and expense”, using the name given by Banco de España Circular 4/2017.

The Bank’s annual accounts have been prepared by the Entity’s Board of Directors to give a true and fair view of the equity and financial position at 31 December 2020 and the results of its operations and its cash flows for the year then ended.

The annual accounts have been prepared on the basis of the individual accounting records of the Entity. The Board of Directors considers that the annual accounts for 2020 will be approved by the Shareholders at the annual General Meeting without significant changes.

The annual accounts for 2019 were approved by the Shareholders at the annual General Meeting held on 7 May 2020.

c) Significant accounting principles

The generally accepted accounting principles and measurement criteria described in the note on significant accounting policies were applied in the preparation of the annual accounts. There are no mandatory accounting principles which have not been applied that would have a significant effect on the preparation of the annual accounts.

However, the operations of the Entity and the rest of the Grucajrural Inversiones, S.L. Group are managed on a consolidated basis, irrespective of the individual allocation of the corresponding assets and liabilities. Consequently, the individual annual accounts of Banco Cooperativo Español, S.A. at 31 December 2020 and 2019 do not reflect changes in equity resulting from the application of consolidation or equity accounting criteria, as applicable, to financial investments corresponding to subsidiaries, or transactions carried out within the Group, which are reflected in the consolidated annual accounts.

d) Responsibility for information and estimates

The information contained in the annual accounts of Banco Cooperativo Español, S.A. is the responsibility of the Directors of the Entity.

The Bank's annual accounts for 2020 and 2019 include estimates made by Senior Management, which were later ratified by the Directors, to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates basically refer to the following:

- Impairment losses on certain assets (see notes 9 and 10).
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments (see note 2 (r)).
- The useful lives of tangible and intangible assets (see notes 12 and 13).
- The fair value of certain financial assets not quoted on organised markets (see notes 6, 7, 8 and 9).
- Estimates used in the calculation of other provisions (see note 17).
- The calculation of income tax and deferred tax assets and liabilities (see note 21).

The above-mentioned estimates are based on the best information available at 31 December 2020 regarding the events analysed. However, future events may require these estimates to be significantly increased or decreased in subsequent years. Any such changes would be applied prospectively in accordance with the provisions of Banco de España Circular 4/2017, recognising the effects of the change in estimates in the related income statement.

On 11 March 2020 COVID-19 was declared a global pandemic by the World Health Organization. The greater uncertainty associated with the unprecedented nature of this pandemic entails greater complexity in developing trustworthy estimates and in applying judgement (see note 2 (m)).

e) Comparative information

The information at 31 December 2019 contained in these annual accounts is presented solely for the purpose of comparison with the information at 31 December 2020, and therefore does not constitute the Bank's annual accounts for 2019.

f) Capital management objectives, policies and processes

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, and 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, came into force on 1 January 2014. These two sets of legislation constitute the transposition to European regulations of the new Basel III (BIS III) solvency framework, and regulate solvency levels and the composition of eligible capital with which credit institutions must operate.

On 5 February 2014, the Official State Gazette ("BOE") published Banco de España Circular 2/2014 of 31 January 2014 on various regulatory alternatives provided for in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions, which was subsequently amended by Banco de España Circular 3/2014 of 30 July 2014. The Circular aimed to establish which of the EU Regulation's alternatives available to national authorities must be complied with by consolidable groups of credit institutions and Spanish credit institutions immediately following the entry into force of the new solvency regulatory framework, and their scope of application.

In the same year, Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency of credit institutions was published, with the main aim of adapting Spanish legislation to regulatory changes at EU and international level, continuing the transposition initiated in Royal Decree 14/2013 of 29 November 2013. This legislation combines the main organisational and disciplinary regulations for credit institutions in a single text.

The next step in this legislative process was the publication of Royal Decree 84/2015 of 13 February 2015, developing Law 10/2014. The purpose of this Royal Decree is not only to complete the regulatory development of the aforementioned Law but also to combine in a single text all regulations pertaining to organisational and disciplinary regulations for credit institutions. To this end, the provisions regarding credit institutions contained in Royal Decree 216/2008 of 15 February 2008 on capital of financial institutions, which should continue to apply following the entry into force of Regulation (EU) No 575/2013, and the duly adapted content of Royal Decree 1245/1995 of 14 July 1995 on the formation of banks, cross-border activity and other issues relating to the legal regime for credit institutions, were combined in a single text.

Furthermore, Banco de España Circular 2/2016 of 2 February 2016 on supervision and solvency was published on 9 February 2016 and completes the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No 575/2013, with respect to the alternatives not addressed in Banco de España Circulars 2/2014 and 3/2014. In addition, Circular 2/2016 develops certain aspects of the transposition of Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 as regards additional supervision by the competent authority, which may be the European Central Bank or Banco de España depending on the assignment and distribution of competencies established in Regulation (EU) No 1024/2013, which is completed by Regulation (EU) No 468/2014 of 16 April 2014 of the European Central Bank.

On 2 November 2017, the Official State Gazette (“BOE”) published Banco de España Circular 3/2017 of 24 October 2017, which amends Circular 2/2014, bringing the content thereof into line with the guidelines issued by the European Central Bank under the framework of prudential supervision of credit institutions and availing of the permanent and transitional options attributed to the pertinent authorities by Regulation (EU) No 575/2013.

On 26 April 2019, Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures entered into force. Banco de España Circular 3/2019 of 22 October 2019 exercising the power conferred by Regulation (EU) 575/2013 for defining the materiality threshold for credit obligations past due was published on 1 November 2019.

Lastly, on 26 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) No 2019/876 as regards certain adjustments in response to the COVID-19 pandemic was published in the Official Journal of the European Union.

The above-mentioned enactments constitute the legislation that regulates, at the end of the period 2020, the minimum capital of Spanish credit institutions, how such capital should be determined, the different capital and liquidity self-assessment processes to be implemented by the institutions and the public information these institutions should submit to the market.

The minimum solvency ratio under the current regulations is calculated as the eligible capital held by the Banco Cooperativo Español, S.A. divided by its risk-weighted assets. The highest quality capital is known as CET1 (Common Equity Tier 1 capital) and essentially comprises capital and reserves, from which several items are deducted, mainly intangible assets and a certain amount of investments in financial sector entities, as well as deferred tax assets that rely on future profitability.

Ranking behind CET1, AT1 (Additional Tier 1 Capital) essentially comprises certain instruments with a high capacity for loss absorption as they are ranked only ahead of Shareholders in the event of liquidation or resolution.

Lastly, T2 (Tier 2 capital) comprises loss-absorbing instruments, only ranking behind Tier 1 capital but subordinate to ordinary creditors, as well as provision surpluses eligible as Tier 2 capital under Regulation (EU) No. 575/2013.

Risk-weighted assets are determined according to the exposure of Banco Cooperativo Español, S.A. to credit and dilution risk (based on the assets, commitments and other off-balance sheet items associated with these risks, and in line with their amounts, characteristics, counterparties, guarantees, etc.), counterparty risk, position and settlement risk relating to items held for trading, currency risk and gold position risk (based on the global net position in foreign currency and the net position in gold), operational risk, and so-called credit valuation adjustment (CVA) risk.

This legislation imposes stringent capital requirements on institutions, including the following:

- It sets minimum requirements (Pillar 1), establishing three levels of capital: Common Equity Tier 1 capital, Tier 1 capital and total capital, for which minimum ratios of 4.5%, 6% and 8%, respectively, are demanded.

- A capital conservation buffer and a countercyclical capital buffer. Following on from the Basel III regulatory framework, and with a view to mitigating the procyclical effects of financial regulations, it includes the obligation to maintain a capital conservation buffer of 2.5% of Common Equity Tier 1 capital for all financial institutions and a countercyclical capital buffer specific to each institution based on Common Equity Tier 1 capital.

- A systemic risk buffer and a systemically important institutions buffer, the latter being applicable to institutions that are systemically important on a worldwide scale as well as other systemically important institutions, for the purpose of mitigating existing systemic or macroprudential risks, in order to protect the financial system from shocks that could have serious adverse consequences within the system and in the real economy of a Member State.

- In addition, specific tasks are conferred upon the European Central Bank with respect to the policies on prudential supervision of credit institutions. The regulation allows the pertinent authorities to impose capital requirements in addition to the minimum capital requirements under Pillar 1, so as to mitigate risks not covered by the latter. These are known as Pillar 2 capital requirements.

Within this context, and pursuant to article 68.2.a) of Law 10/2014, following the Supervisory Review and Evaluation Process (SREP) carried out by the pertinent authority, Banco de España announced its decision regarding the prudential capital requirements applicable to the Grucajarural Inversiones Group, of which it is part Banco Cooperativo Español. This decision requires to maintain a total phase-in capital ratio of no less than 9.13% of the amount of its total risk exposure from 1 January 2021 onwards (identical percentage to that required in 2020), to which the capital buffers – which in 2021 stood at 2.50% of total risk exposure plus those that could eventually be determined by the competent authority during the year– should be added. In addition to this quantitative minimum capital ratio requirement, a qualitative requirement (composition of capital) demands that should maintain a CET 1 capital ratio of no less than 5.14% and a Tier 1 capital ratio of 6.85% or more. The buffers should also be covered by CET 1 capital.

On 24 February 2020 the Banco de España Executive Committee agreed to grant Banco Cooperativo Español exemption from compliance with the individual obligations set out in article 6.1 of Regulation (EU) no. 575/2013, because it is a subsidiary of a mixed financial holding company (Grucajrural Inversiones, S.L.). For the granting of this exception, which encompasses capital requirements, large exposures and leverage, the Banco de España has particularly taken into account the Bank and its Parent's willingness to restore the Bank's capital if required and not change its business model.

The principle established by the Directors of the Banco Cooperativo Español for managing capital consists of operating at a level of solvency above that stipulated in the applicable regulations, and which is appropriate for the risks inherent in its business and the environment in which it operates. The objective is to maximise capital management efficiency so that capital consumption can be considered, alongside other return and risk variables, as a fundamental parameter in analyses associated with the Group's investment decisions.

The Bank has implemented a number of capital management policies and processes to meet this objective, with the following main characteristics:

- The Directors and Senior Management take an active role in the strategies and policies that affect the Group's capital management. The objective is to maintain robust solvency ratios of an appropriate quality that are consistent with the Group's risk profile and business model.

- The Group has a comprehensive risk management unit that monitors and controls solvency ratios to guarantee compliance with applicable legislation and the consistency of decisions made by the different areas and units of the Entity with the objectives set, to ensure that minimum capital requirements are met. Contingency plans are in place to ensure compliance with the limits stipulated in the applicable legislation.

- The impact of the Group's decisions on its eligible capital and the risk-return ratio is considered a key decision-making factor in the Group's strategic and commercial planning and in the analysis and monitoring of Group transactions.

- Pursuant to the provisions of the solvency regulations, the Group has a capital and liquidity self-assessment process in place. This process comprises a set of solid, comprehensive strategies and procedures that, inter alia, enable the Group to continuously assess and maintain the amounts, types and allocation of capital to cover all the risks to which it is or may be exposed, according to their nature and level.

As part of its risk management, the Group continuously identifies, measures, monitors and mitigates the risks to which its activity is exposed, incorporating the findings into the capital self-assessment process. This process entails estimating current and future eligible capital and capital requirements (under different scenarios) according to the risks inherent in its business, the economic environment in which it operates, risk governance, management and control systems, its strategic business plan, the quality or composition of available capital and actual opportunities for raising additional capital, should this prove necessary. To that end, once the Group has calculated its minimum capital under Basel's Pillar 1, it reviews and assesses the other risks and factors not considered therein which should be taken into account due to their importance, and it estimates the capital needed to cover all of the risks while maintaining an adequate buffer with respect to the regulatory minimum capital under Pillar 1.

This process ensures an adequate relationship between the risk profile of the entities making up the Group and the capital they effectively hold, both in absolute terms and in terms of the composition and distribution among the various legally separate entities, and is formally recorded in the following documents (subject to review at least once a year), which have been approved by the boards of Directors of the Bank and of the Group's Parent:

- Risk Appetite Framework, which defines the Group's appetite vis-à-vis the risks it is prepared to assume in conducting its activity. Besides the capital and leverage targets, this document determines the risk tolerance, i.e. the maximum deviation from the targets defined that the Group considers acceptable.

- Capital Contingency Plan, which outlines the plan of action with respect to potential adverse effects in the event of a capital shortfall, when capital falls below the threshold stipulated in the Risk Appetite Framework. The Capital Contingency Plan aims to facilitate the return to a robust capital position within the Group in the event of a potential moderate crisis wherein the threshold is surpassed. In this respect, the Board of Directors of the Bank and/or of the Group's Parent considers the application of extraordinary measures that would enable the desired levels to be recovered.

- Recovery Plan, which sets the solvency and leverage indicator levels below the Group's risk tolerance before the occurrence of any possible regulatory non-compliance, which would entail the implementation of corrective measures for crisis situations. The plan also defines the range of measures and the enforceability of each one.

The Bank's eligible capital at 31 December 2020 and 2019 and the related capital ratios are shown in the following table:

	Thousands of Euros	
	2020	**2019**
Capital	129,318	122,034
Share Premium	85,972	85,972
Reserves and other	327,313	331,598
Result of the exercise	36,579	27,006
Valuation adjustments	8,229	27,688
Deductions	(6,525)	(8,040)
Transient adjustments	(2,140)	-
Common Equity Tier 1 (CET 1) capital	**578,746**	**558,570**
Additional Tier 1 items	-	-
Tier 1 capital	**578,746**	**558,570**
Collective provision	-	-
Tier 2 capital	**-**	**-**
Total eligible capital	**578,746**	**558,570**
Credit, counterparty, dilution and delivery risk	97,518	81,581
Price, currency and commodity position risk	15,437	20,688
Operational and other risks	22,358	23,282
Total capital requirement	**135,313**	**125,551**
Surplus	**443,433**	**433,019**
Capital ratio (%)	**34.2**	**35.6**
Tier 1 capital (%)	**34.2**	**35.6**
Leverage exposure	8,448,222	7,099,377
Leverage ratio* (%)	**6.85**	**7.87**

(*) Ratio shown for information purposes; it will enter into force on 28 June 2021, whereupon it must be at least 3%.

At 31 December 2020 and 2019, and during both years, the Bank's eligible capital exceeded the requirements of the regulations and of the pertinent authority availing of its powers of supervision of credit institutions.

Under the options conferred by Regulation (EU) 2020/873, the Bank implemented the following transitional arrangements at 31 December 2020:

- Partial exclusion from regulatory capital of valuation adjustments recognised in equity (OCI) relating to certain financial assets (basically government debt) recognised at fair value through "accumulated other comprehensive income".

- Exclusion from the calculation of the leverage exposure measure vis-à-vis certain exposures to central banks related to monetary policy measures implemented to limit the pandemic's economic impact.

The impact of these measures on the capital and leverage figures and ratios and the related breakdown is as follows:

	Thousands of Euros	
Impact of the transitional arrangements of Regulation (EU) 2020/873	**With transitional provisions**	**Without transitional provisions**
Common Equity Tier 1 (CET 1) capital	578,746	580,887
Additional Tier 1 capital	-	-
Tier 2 capital	-	-
Total eligible capital	**578,746**	**580,887**
Common Equity Tier 1 (CET 1) capital ratio (%)	34.2	34.3
Tier 1 Capital ratio (%)	34.2	34.3
Capital ratio (%)	**34.2**	**34.3**
Leverage exposure	8,448,222	11,641,890
Leverage ratio (%)	**6.85**	**4.99**

	Thousands of Euros	
Breakdown of the impact of the transitional arrangements of Regulation (EU) 2020/873	**Valuation adjustments, Public debt**	**Exposures to central banks**
Common Equity Tier 1 (CET 1) capital	(2,140)	-
Risk-weighted assets	-	-
Common Equity Tier 1 (CET 1) capital ratio (%)	(0.1)	-
Capital ratio (%)	**(0.1)**	**-**
Leverage exposure	(2,140)	(3,191,528)
Leverage ratio (%)	**(0.02)**	**1.88**

Lastly the attached table contains a reconciliation of the Bank's regulatory capital and its book equity is as follows:

	Thousands of Euros			
	2020		2019	
	Regulatory capital	**Book equity**	**Regulatory capital**	**Book equity**
Capital	129,318	129,318	122,034	122,034
Share Premium	85,972	85,972	85,972	85,972
Reserves	327,314	327,313	303,910	303,910
Profit for the year	36,579	42,265	27,006	32,009
Valuation adjustments	8,229	8,229	27,688	27,688
Deductions	(6,525)	-	8,040	-
Temporary adjustments	(2,140)	-	-	-
Common Equity Tier 1 (CET 1) capital	**578,747**	**593,097**	**558,570**	**571,613**

g) *Deposit Guarantee Fund for Credit Institutions, National Resolution Fund and Single Resolution Fund*

Deposit Guarantee Fund for Credit Institutions

The Bank contributes to the Deposit Guarantee Fund for Credit Institutions (hereinafter DGFCI). In 2020 and 2019 the expense incurred for ordinary, additional and extraordinary contributions to this fund amounted to Euros 57 thousand and Euros 59 thousand, respectively, and was recognised under "Other operating expenses" in the accompanying income statement.

With respect to ordinary contributions, Royal Decree 1012/2015 of 6 November 2015, which develops Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment service firms, was published on 7 November 2015. This legislation amends Royal Decree 2606/1996 of 20 December 1996 on deposit guarantee funds for credit institutions. The amendments include a change in the definition of assets of the DGFCI, indicating that the Management Committee will determine the annual contributions of the institutions that participate in the fund based on the criteria established in Article 6 of Royal Decree-Law 16/2011 of 14 October 2011 on the formation of the DGFCI.

In accordance with IFRIC 21, the contributions are recognised when the payment obligation arises, which in this case is 31 December each year.

The calculation bases for the amounts to be contributed by the institutions to each sub-fund are as follows:

- In the case of contributions to the deposit guarantee sub-fund, the deposits covered by the guarantee as defined in Article 4.1 of Royal Decree 2606/1996.

- In the case of contributions to the securities guarantee sub-fund, 5% of the list price on the corresponding secondary market on the last trading day of the year of the securities covered by the guarantee and held at the end of the year, as defined in Article 4.2. When these include securities and financial instruments not traded on secondary markets, either in Spain or abroad, the calculation basis will be their par value or redemption value, whichever is more appropriate for the type of financial instrument, unless a more relevant value is known or published for the purposes of its deposit or recognition.

National Resolution Fund

As part of the process for the creation of an internal banking services market in the European Union, Directive 2014/59/EU has established a centralised supervision framework, the first stage of which was the creation of the Single Supervisory Mechanism through Council Regulation (EU) No. 1024/2013 (hereinafter SSM), which aims to ensure that the EU's policies on the prudential supervision of credit institutions are applied consistently and efficiently, to promote the uniform application of the single rulebook for financial services to credit institutions in Eurozone Member States and non-Eurozone Member States that choose to adhere to the SSM and to ensure that these credit institutions are subject to the highest level of supervision.

As part of this integration process of the supervision and resolution of credit institutions, Regulation (EU) No. 806/2014 of the European Parliament and of the Council establishes a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism (SRM), which strengthens the image of solvency of these types of institutions at European level.

The fundamental instrument for the proper functioning of the SRM is the Single Resolution Fund (hereinafter SRF), which was created through Regulation (EU) No. 806/2014. This fund was initially set up using annual ex ante contributions from the institutions subject to the supervisory framework of the SSM.

Commission Delegated Regulation (EU) 2015/63 developed a standard methodology for calculating contributions to the SRF. The contributions are made annually and the amount payable by each institution is determined by the competent resolution authority in each Member State based on the institution's size and risk profile.

All of the aforementioned EU legislation was transposed to Spanish Law through Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment firms. Among other matters, this Law appoints the Spanish Fund for Orderly Bank Restructuring (hereinafter the FROB) as the competent resolution authority in Spain. The FROB is therefore the entity in charge of calculating and collecting contributions to the SRF from Spanish credit institutions and certain investment firms subject to the aforementioned legislation, through the National Resolution Fund (hereinafter NRF).

The expense recognised by the Bank in 2015 in respect of contributions amounted to Euros 8,826 thousand.

On 21 September, 14 October, 10 November and 24 November 2015, the Bank sent a request to the FROB for it to consider the specific aspects of the relationship between the Bank and rural savings banks with a view to these being included in the regulations, thereby solving the problem foreseen with respect to the calculation of ex ante contributions; or for the FROB, when calculating these contributions, to consider eliminating any liabilities arising from operations between the Bank and rural savings banks and to take into account the low risk profile of the Entity and its low probability of being subject to resolution, for the purposes of applying the risk-based adjustment to the annual contribution.

The FROB rejected the Bank's requests, thereby requiring it to include the liabilities between the Bank and the rural savings banks, which were reported for the purposes of calculating contributions to the NRF.

On 29 January 2016 the Bank filed an appeal for judicial review with the Spanish High Court against the resolution of 21 January 2016 and, by extension, against the agreement of 26 November 2015, both issued by the Governing Committee of the FROB, regarding the 2015 ex ante contributions to the NRF. The Spanish High Court rejected the appeal in a judgment handed down on 10 May 2017. A cassation appeal was lodged with the Supreme Court in respect of this judgment. This was upheld in a writ dated 12 December 2017, and the cassation appeal was formally filed on 1 February 2018. At the date of these annual accounts the Supreme Court has confirmed, by means of a writ issued on 7 March 2019, its decision adopted in an interlocutory order dated 28 January 2019 to suspend resolution of the cassation appeal until the preliminary proceedings taken to the Court of Justice of the European Union (CJEU), set forth in case ICCREA Banca C-414/18, are resolved.

On 3 December 2019 the European Court of Justice (Grand Chamber) gave a preliminary ruling against the interests of ICCREA Banca. In a ruling dated 12 February 2020 the Supreme Court finally rejected the appeal filed by the Bank against the ex ante contribution to the NRF dating from 2015. This ruling is firm and cannot be appealed and, as a result, this matter is closed.

Single Resolution Fund

Article 67 of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 provides for the creation of the Single Resolution Fund as a key component of the Single Resolution Mechanism (SRM), initiated in Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014.

This Fund began to operate on 1 January 2016 and is managed by the Single Resolution Board, which is also in charge of calculating the contributions to be made by the credit institutions and investment firms defined in Article 2 of the Regulation. The contributions are to be calculated in accordance with the rules defined in Commission Delegated Regulation (EU) 2015/63 of 21 October 2014, which completes Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to the financing mechanisms of the resolution.

In accordance with Article 103 of Directive 2014/59/EU, the available financial means to be taken into account to reach the target level for the Single Resolution Fund may include irrevocable payment commitments which are fully backed by collateral of low-risk assets unencumbered by any third-party rights, at the free disposal and earmarked for exclusive use by the resolution authorities for the purposes specified in the Directive. The share of irrevocable payment commitments shall not exceed 30% of the total amount of ex ante contributions raised.

In 2020, the Bank's contribution amounted to Euros 1,619 thousand, of which Euros 1,376 thousand was recognised under “Other operating expenses” in the accompanying income statement and Euros 243 thousand took the form of an irrevocable commitment.

In 2019, the Bank's contribution amounted to Euros 2,414 thousand, of which Euros 2,061 thousand was recognised under “Other operating expenses” in the accompanying income statement and Euros 353 thousand took the form of an irrevocable commitment.

On 11 December 2015, the FROB notified the Bank in writing that in view of the Single Resolution Fund (SRF) coming into operation on 1 January 2016, as of that date the Single Resolution Board (SRB) would be responsible both for administering that Fund and for calculating the contributions thereto.

On 1 February 2016, through the FROB, the Bank informed the SRB in writing of the items and balances vis-à-vis its shareholder rural savings banks which the Bank considered should be taken into account (i.e. should be eliminated) when determining its ex ante contribution to the SRF for 2016. The arguments supporting the request to eliminate these balances were similar to those put forward with respect to the contribution to the NRF for 2015.

On 26 April 2016, the Bank received notice, through the FROB, of the SRB's decision in relation to the Bank’s ex ante contribution to the SRF for 2016, which amounted to Euros 8,857 thousand (7,529 miles of euros paid directly on 23 June 2016 and 1,328 miles of euros as irrevocable payment commitments).

As balances whose elimination was requested in the Bank's written request of 1 February 2016 were not taken into account in calculating this contribution, the Bank, on 29 June 2016, lodged an appeal with the Court of Justice of the European Union's General Court in Luxembourg requesting annulment of the SRB's decision regarding the settlement for the Bank's ex ante contribution for 2016. On 28 November 2019 the European General Court (EGC) passed judgement annulling, with regard to Banco Cooperativo Español, S.A., the decision of the SRB in its executive session of 15 April 2016 on the 2016 ex ante contributions to the Single Resolution Fund ((SRB/ES/SRF/2016/06).

On 19 March 2020 the SRB issued a decision whereby it determined a new settlement for the Bank for the ex ante contribution to the SRF for 2016, for the same amount as the cancelled contribution and making it effective retroactively to 2016. This new settlement was appealed on 10 August 2020 before the European General Court. The Court has yet to hand down its resolution at the date of these annual accounts.

In relation to the ex ante contribution to the SRF for 2019, on 9 July 2019 the Bank filed an appeal for annulment before the European General Court as it understood that in the calculation of this contribution the SRB should have applied rules for Institutional Protection Schemes (IPS), as in 2018 the Bank was already included in an IPS together with various shareholder rural savings banks. The Court has yet to hand down its resolution at the date of these annual accounts.

The Bank has also filed appeals for judicial review with the Central Economic-Administrative Tribunal in connection with the levies on the activities carried out by the FROB, as the resolution authority, for 2015 and 2016, inasmuch as the calculation basis for these levies were the ex ante contributions to the NRF and the SRF, respectively, settled by the Bank in 2015 and 2016. At the date of these annual accounts, these economic-administrative claims have been rejected, having appealed only for 2016 will be filed in the contentious-administrative court before the National Court on May 28 2020, as there are no longer grounds for the appeal for 2015 as a result of the aforementioned ruling by the Supreme Court. This contentious-administrative court is pending resolution as of the date of these annual accounts.

h) Minimum reserve ratio

At 31 December 2020, and throughout 2020 period, the Bank complied with the minimum reserve ratio stipulated in applicable legislation, Regulation (EC) No 1745/2003 of 12 September 2003 of the European Central Bank.

i) Environmental impact

In light of its activity, the Entity does not have any liabilities, expenses, assets, provisions or contingencies of an environmental nature that could be significant with respect to its equity, financial position or financial performance. Therefore, no specific disclosures relating to environmental issues are included in the notes to the accompanying annual accounts.

j) Institutional protection scheme

On 29 December 2017 the rural savings banks affiliated with the Spanish Association of Rural Savings Banks (hereinafter the Savings Banks) entered into a Framework Agreement with the aforementioned Association, the Bank's Parent (Grucajrural Inversiones, S.L.) and the Bank, the purpose of which was to set up a "cooperative institutional protection scheme" (hereinafter IPS) within the Caja Rural Group, as well as certain other arrangements. These agreements envisaged, among others, the following milestones:

- Promote the advancement of the statutory and conventional framework of the Association, so as to modernise and reinforce it, replacing the support mechanisms currently in place with an institutional protection scheme (IPS) as envisaged in article 113.7 of Regulation (EU) No 575/2013 (CRR). The IPS shall be formed by the 29 Savings Banks affiliated with the Association at the date of the Framework Agreement, Grucajrural Inversiones, S.L. and Banco Cooperativo Español, S.A. (hereinafter the IPS members).

- Constitute a fund to provide any financial support that may be addressed through the IPS, which shall be sustained by contributions from the IPS members. This fund shall be administered and controlled by the Association, directly or indirectly, through one or more vehicles.

On 1 March 2018 the Spanish Association of Rural Savings Banks ("AECR") held its general assembly, during which all of the affiliated Savings Banks approved the creation of the IPS. To this end, they also approved the AECR's new statutes, the IPS regulation, the IPS disciplinary regime, certain technical notes relating to measurement of the solvency and liquidity of the IPS members, the general risk policy, and a new agreement regulating economic relations within the Caja Rural Group.

For the purposes envisaged in (i) article 113.7 of the CRR and (ii) in the legislation regulating contributions to the Deposit Guarantee Fund, Banco de España acknowledged the IPS as an institutional protection scheme meeting the definition provided in article 113.7 of the CRR on 23 March 2018.

Creation of the aforementioned IPS required recognition of the commitment undertaken to constitute the fund created to provide any financial support that may be addressed through the IPS. This entailed an expense of Euros 1,500 thousand for 2020 (Euros 1,500 thousand in 2019), which has been recorded in "Other operating expenses" in the accompanying income statement (see note 29).

k) Late payments to suppliers. "Reporting requirement", additional provision three of Law 15/2010 of 5 July 2010

Pursuant to Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004 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 to the annual accounts on the average supplier payment period in commercial transactions.

- Details of late payments to suppliers by the Bank are as follows:

	2020	**2019**
	Days	
Average supplier payment period	33.4	33.3
Transactions paid ratio	31.8	32.4
Transactions payable ratio	54.7	46.3
	Thousands of Euros	
Total payments made	54,205	46,337
Total payments outstanding	826	3,396

- In view of the activities in which the Bank is engaged, the information on late payments essentially reflects payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Bank, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

The "average supplier payment period" is understood as the time elapsed between the delivery of goods or the provision of services by the supplier and the effective payment of the operation.

l) Seasonal nature of income and expenses

The most significant operations conducted by the Bank are fundamentally the activities typically befitting financial institutions. Therefore, its operations are not significantly affected by seasonal factors within the year.

m) COVID-19 environment and impacts of the pandemic

The emergence of Coronavirus COVID-19 in China and its global spread to a large number of countries led the World Health Organization to declare the viral outbreak a pandemic on 11 March 2020. The pandemic has affected and continues to adversely affect the global economy and activity, as well as the economic situation in Spain, where the Bank operates. The Spanish government has adopted an array of measures that have affected performance for the year.

In the face of the pandemic, the Bank has focused its attention on ensuring continuity of the operational security of the business as a priority and monitoring the impact on the Bank's business and risks (such as impacts on results, capital or liquidity). However, this has not caused any substantial change to the Bank's mid and long-term strategic plan.

In order to mitigate the impact associated with COVID-19, various European, national and international bodies have issued declarations aimed at allowing an increased level of flexibility with regard to the implementation of accounting and prudential frameworks. The Bank has taken these declarations into consideration when authorising these annual accounts for issue.

The following table shows a summary of the Bank's legislative and non-legislative moratoriums at year-end:

	Thousands of Euros								
	Legislative moratoriums				Sector-specific moratoriums		Accounting classification		
	With mortgage guarantee		With personal guarantee		With personal guarantee		Performing	Performing exposures under special monitoring	Non-performing
	Number of loans	Carrying amount (gross)	Number of loans	Carrying amount (gross)	Number of loans	Carrying amount (gross)			
Individuals	5	440	58	161	37	149	686	5	59

The data at the 2020 year end for loans backed by public guarantees in the context of the COVID-19 crisis is as follows:

	Thousands of Euros				
			Accounting classification		
	Number of loans	**Limit**	**Performing**	**Performing exposures under special monitoring**	**Non-performing**
Individuals	8	534	534	-	-
Legal entities	52	42,063	37,459	4,604	-
Total	**60**	**42,597**	**37,993**	**4,604**	**-**

n) Events after the reporting period

Irrespective of the matters mentioned in these notes to the annual accounts, between 31 December 2020 and the date on which the Board of Directors of the Bank drawn-up the annual accounts, no significant event has occurred that must be included in the annual accounts so that they adequately show the true image of the Bank's equity, financial situation and results.

o) Guarantee of the Parent Company

At its meeting on 27 September 2018, the Board of Directors of Grucajrural Inversiones, S.L. (hereinafter, the Parent) resolved that, should Banco Cooperativo Español, S.A. be declared definitively insolvent as a result of either a final court resolution handed down within insolvency proceedings or a final administrative resolution, the Company would undertake to meet payment of any of the outstanding creditor claims of Banco Cooperativo Español, S.A.

For these purposes, definitive insolvency is understood to be the declaration of liquidation of Banco Cooperativo Español, S.A. as a result of a court or administrative resolution.

The effectiveness of the guarantee is subject to the condition subsequent that the competent authority may withdraw at any time and under any circumstances the exemption from the obligation to comply with individual capital requirements and the limits to large exposures on an individual basis, as provided in Article 7.2 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 and amending Regulation (EU) No 648/2012.

2. Significant Accounting Policies

The following accounting policies and measurement criteria have been applied in the preparation of the annual accounts:

a) Going concern

The Bank has prepared these annual accounts for 2020 on a going concern basis.

b) Accruals principle

The accompanying annual accounts, except for the cash flow statement, have been prepared on an accruals basis, irrespective of collections and payments.

c) Financial instruments

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

I. Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Bank becomes party to the contract that generates them, in accordance with the terms therein. Specifically, debt instruments such as loans and cash deposits are recognised from the date that a legal right to receive or a legal obligation to 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 contracts, 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 the settlement date; equity instruments traded on Spanish secondary securities markets are recognised at the trade date, and debt securities traded on Spanish secondary securities markets are recognised at the settlement date.

II. Derecognition of financial instruments

A financial asset is derecognised from the balance sheet when any of the following circumstances arise:

- The contractual rights over the cash flows have expired; or
- The financial asset and substantially all the risks and rewards associated therewith are transferred, or although these are neither substantially transferred nor retained, control over the financial asset is transferred.

A financial liability is derecognised from the balance sheet when the obligations arising therefrom have expired or when it is redeemed by the Bank with the intention either to resell it or to cancel it.

III. 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 derivatives traded on an organised, transparent and deep market included in the trading portfolios is equivalent to their daily quotation price and if, for exceptional reasons, the quotation price on a given date cannot 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, or others.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments, and plus or minus, as appropriate, the cumulative amortisation (as reflected in the income statement), using the effective interest method, of the difference between the initial cost and the maturity 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 initial value of a financial instrument to all of its estimated cash flows for all items 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 in accordance with Banco de España Circular 4/2017. For variable interest financial instruments, 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.

A summary of the different valuation techniques used by the Bank to measure financial instruments categorised as "Financial assets held for trading", "Non-trading financial assets mandatorily at fair value through profit or loss", "Financial assets designated at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Derivatives – Hedge accounting" under balance sheet assets, and "Financial liabilities held for trading", "Financial liabilities designated at fair value through profit or loss" and "Derivatives – Hedge accounting", under balance sheet liabilities, at 31 December 2020 and 2019 is as follows:

	%			
	2020		**2019**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Quoted price in active markets	61.6	-	71.0	-
Internal valuation models	38.4	100.0	29.0	100.0
	100.0	**100.0**	**100.0**	**100.0**

The main techniques used in the internal valuation models are as follows:

- The present value method is used to measure financial instruments that enable static hedging (mainly forwards and swaps).

- The Black-Scholes model is applied to certain plain vanilla derivative products (calls, puts, caps/floors).

- The Monte Carlo simulation method is used for the remaining derivative financial instruments.

- The effect of credit risk on fair value is calculated based on the credit curves for issuers with different credit ratings and economic sectors.

Credit Valuation Adjustments (hereinafter "CVA") and Debit Valuation Adjustments (hereinafter "DVA") are included in the measurement of both asset and liability derivative products to reflect the impact on fair value of counterparty credit risk and an entity's own credit risk, respectively.

The adjustments to be performed are calculated by estimating exposure at default, the probability of default and loss given default for all derivative products with any underlying, by legal entity (i.e. all counterparties under the same ISDA/CMOF contract) to which the Bank is exposed.

In general, the CVA is calculated by multiplying expected positive exposure by the counterparty's probability of default. The DVA is calculated by multiplying the expected negative exposure by the probability of default, then multiplying the result by the Bank's loss given default. Both calculations encompass the entire duration of the potential exposure.

The information required to calculate the probability of default and the loss given default is obtained from credit markets (credit default swaps or iTraxx indices), applying the Entity's own information if available. If information is not available, a process based on sector, rating and location is applied to assign both probabilities of insolvency and expected losses in the event of insolvency, calibrated directly to market or through the adjustment to market of the probabilities of insolvency and historical expected losses.

The Bank's Directors consider that the financial assets and financial liabilities in the balance sheet and gains and losses on these financial instruments are reasonable and reflect their market value (see note 24).

IV. Classification and measurement of financial assets and financial liabilities

Circular 4/2017 includes three main categories for the classification of financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss.

- A financial asset shall be measured 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 to cash flows that are solely payments of principal and interest, the latter basically being consideration for the time value of money and the credit risk associated with the borrower.

- 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 asset shall be classified as mandatorily at fair value through profit or loss when it is not held in either of the two preceding portfolios, in view of the business model under which it is managed or the characteristics of its contractual cash flows.

Within the portfolio of financial assets mandatorily at fair value through profit or loss, financial assets held for trading shall include all assets that meet any of the following characteristics:

- They are originated or acquired with the purpose of selling them in the near term.

- They are part of a group of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking.

- They are derivatives that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.

However, an entity may make an irrevocable election at initial recognition to include investments in equity instruments that should not be classified as held for trading and which would be classified as financial assets mandatorily at fair value though profit or loss in the portfolio of financial assets at fair value through other comprehensive income. This election shall be made on an instrument-by-instrument basis.

Similarly, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

<u>Business model for managing financial assets</u>

In relation to the foregoing, 'business model' refers to how an entity manages its financial assets in order to generate cash flows. In particular, the business model may entail holding the financial assets with the objective of collecting contractual cash flows therefrom, selling the assets, or both.

The business model is determined considering how groups of financial assets are managed together to achieve a particular business objective. In other words, the business model does not depend on the Entity's intentions for an individual instrument, but rather should be determined for a group of instruments.

<u>Characteristics of contractual cash flows of the financial assets</u>

Similarly, a financial asset should be classified at initial recognition in one of the following categories, depending on the characteristics of its contractual cash flows:

a) Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Other financial assets.

All financial assets are initially recognised at fair value plus, in the case of financial instruments not classified at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Except in the case of trading derivatives that are not financial hedges or hedge accounting, all changes in value of financial assets due to the accrual of interest and similar items are recognised as “Interest income” in the income statement for the period in which such amounts were accrued. Dividends received from companies other than subsidiaries, joint ventures or associates are recognised as “Dividend income” in the income statement for the period in which the right to receive them is established.

Changes in value subsequent to initial recognition due to reasons other than those mentioned in the preceding paragraph are treated as described below, based on the category in which the financial assets have been classified.

- Financial assets included in the financial assets at amortised cost category are measured at amortised cost. Amortised cost is the amount at which the financial instrument was initially measured, minus principal repayments, plus or minus the cumulative amortisation (as reflected in the income statement by the effective interest method) of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

- Financial assets recorded in the financial assets at fair value through other comprehensive income category are measured at fair value. Subsequent gains or losses on this measurement are temporarily recognised (net of any tax effect) under “Accumulated other comprehensive income” on the balance sheet. The amounts recognised in this line item remain in the Entity’s equity until the asset giving rise to them is derecognised, or until the financial instrument is considered to be impaired.

  When a debt instrument at fair value through other comprehensive income is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss for the period, under “Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net” in the income statement. However, when an equity instrument at fair value through other comprehensive income is derecognised, the gain or loss recognised in accumulated other comprehensive income is not reclassified to profit or loss, but instead to reserves.

  Financial assets that are equity instruments whose fair value cannot be reliably measured and derivatives that have those instruments as their underlying and are settled by delivery of those instruments, are measured at cost, net of any impairment, calculated using the criteria described.

- Subsequent to their acquisition, financial assets categorised at fair value through profit or loss are measured at fair value. Changes in fair value are recognised directly in the income statement, distinguishing, for non-derivative instruments, between the part attributed to accrued returns of the instrument, which is recorded as interest or as dividends depending on its nature, and the rest, which is recognised as gains or losses on financial transactions. Interest accrued on debt instruments is calculated using the effective interest method.

- Liabilities through profit or loss. This financial liability portfolio is divided into two parts:

  - Financial liabilities held for trading: financial liabilities issued with the intention of repurchasing them in the near term, short positions and derivatives not designated as hedging instruments.

  - Financial liabilities designated at fair value through profit or loss: hybrid financial liabilities not held for trading that must be measured entirely at fair value.

- Financial liabilities at amortised cost: this financial instrument category comprises financial liabilities not included in any of the above categories.

  Liabilities issued by the Bank which, having the legal nature of capital, do not qualify as equity, are classified as financial liabilities at amortised cost, except those designated by the Bank as financial liabilities at fair value through profit or loss, if the pertinent conditions are met.

  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 the income statement until maturity using the effective interest method, as defined in Banco de España Circular 4/2017. These liabilities are subsequently measured at amortised cost, calculated using the effective interest method defined in the aforementioned Circular.

  Interest accrued on these securities, calculated using the effective interest method, is recognised under “Interest expense” in the income statement. 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.n. Financial liabilities included in this category subject to fair value hedges are recognised following the criteria described in note 2.d.

  Nevertheless, financial instruments which should be considered as non-current assets and disposal groups classified as held for sale in accordance with Rule 34 of Banco de España Circular 4/2017 are recognised in the annual accounts applying the criteria described in note 2.e.

d) Derivatives and hedge accounting

Derivatives are instruments that allow all or part of the credit and/or market risks associated with balances and transactions to be transferred to third parties, using interest rates, certain indices, prices of certain securities, different currency cross rates or other similar references as underlying items.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive they are recognised as an asset, and if the fair value is negative they are recognised as a liability. Unless there is evidence to the contrary, the fair value on the trade date is deemed to be the transaction price. Changes in the fair value of derivatives after the trade date are recognised under "Gains or losses on hedge accounting, net" in the income statement. In particular, the fair value of standard derivatives included in the trading portfolios is equivalent to their daily quotation price and if, for exceptional reasons, the quotation price on a given date cannot be established, methods similar to those used to measure over-the-counter (OTC) derivatives are applied. The fair value of OTC derivatives 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, or others.

Derivatives that have equity instruments as their underlying whose fair value cannot be determined in a sufficiently objective manner and which are settled by delivery of those instruments are measured at cost of acquisition.

I. Hedge accounting

Hedge accounting may only be applied to a derivative if the following three conditions are met:

- One of the following three types of risks is hedged:
    - Changes in the value of assets and liabilities due to fluctuations in the interest rate and/or exchange rate applicable to the position or balance to be hedged ("fair value hedge").
    - Variability in the estimated cash flows deriving from financial assets and liabilities and highly probable transactions forecast to be carried out by an entity ("cash flow hedge").
    - The net investment in a foreign operation ("hedges of a net investment in a foreign operation"), which in practice equates to a cash flow hedge.
- A significant part of the risk inherent in the hedged item or position during the entire term of the hedge is effectively eliminated, which means that:
    - Upon arrangement the hedge is expected, under normal conditions, to be highly effective ("prospective effectiveness").
    - There is sufficient evidence that the hedge was actually effective throughout the life of the hedged item or position ("retrospective effectiveness").
- And lastly, there must be adequate documentation of the derivative having been arranged for the specific purpose of hedging certain balances or transactions, and the manner in which the hedge was to be achieved, which must be consistent with the Bank's management of its own risks.

The Bank designates operations as hedges on inception of the hedge or the hedged instruments, and duly documents the hedging transaction. Documentation on these hedging transactions should adequately 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, taking into account the risk it intends to hedge.

The Bank only considers operations that are deemed highly effective throughout their duration as hedging transactions. A hedge is considered highly effective if during the expected term of the hedge changes in fair value or cash flows attributable to the hedged risk 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 defined as such, 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 almost 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 Bank has arranged fair value hedges, that is, hedges of exposure to changes in the fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of these assets, liabilities or firm commitments, attributable to a particular risk and provided that these changes could affect the income statement; and cash flow hedges, that is, hedges of variability in the estimated cash flows deriving from financial assets and liabilities and highly probable transactions forecast to be carried out by an entity.

With respect to financial instruments designated as hedged items and that qualify for hedge accounting, changes in value of both the hedging instruments and the hedged items – as regards the type of hedged risk – are recognised in profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, the hedge no longer meets the criteria 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 income statement until the hedged items expire, using the effective interest rate recalculated on the date the hedging transaction is discontinued.

The Bank holds certain derivatives for the purpose of mitigating certain risks inherent in its activity, and which do not qualify for hedge accounting. In particular, the Bank has arranged swaps to hedge the interest rate risk on the associated transactions. The Bank accounts for these instruments as trading derivatives.

On the basis of its analysis, the Bank continues to apply Circular 4/2004 for its hedge accounting, as permitted by the regulations.

e) Impairment of financial assets

The carrying amounts of financial assets are generally adjusted with a charge to the income statement when there is objective evidence that an impairment loss has occurred, i.e.:

1. In the case of debt instruments, understood as loans, advances other than loans and debt securities, when, after their initial recognition, a single event or the combined effect of several events causes a negative impact on their future cash flows.

2. In the case of equity instruments, when, as a result of an event or the combined effect of several events after initial recognition, their carrying amount will not be able to be recovered.

The potential situations the Bank considers as objective evidence that a financial instrument could be impaired, and which give rise to a specific analysis of the financial instrument in question to determine the amount of any possible impairment, include those enumerated in Rule 29 of Banco de España Circular 4/2017. The situations which for the Bank constitute objective evidence of possible impairment of a financial instrument include the following:

a) Significant financial difficulty of the issuer or the borrower.

b) The disappearance of an active market for that instrument because of financial difficulties of the issuer.

c) Significant changes in the performance of the issuer compared with budgets, business plans or milestones.

d) Significant changes in expectations that the issuer’s technical product milestones will be achieved.

e) Significant changes in the market for the issuer’s equity instruments or its products or potential products.

f) Significant changes in the global economy or the economic environment in which the issuer operates.

g) Significant changes in the technological or legal environment in which the issuer operates.

h) Significant changes in the performance of comparable entities, or in the valuations implied by the overall market.

i) Internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

The mere decline in the fair value of the instrument below its carrying amount may indicate impairment, but is not necessarily objective evidence of an impairment loss. Objective evidence of impairment shall be deemed to exist when there is a significant or prolonged decline in the fair value of the instrument below its carrying amount.

Objective evidence of impairment shall also be deemed to exist when the issuer has been declared or will probably be declared bankrupt.

In the case of debt instruments measured at amortised cost, as well as other exposures entailing credit risk, such as loan commitments, financial guarantees, and other commitments given, the amount of the impairment loss is equal to the negative difference between the carrying amount and the present value of estimated future cash flows. For quoted debt instruments, market value may be used instead of the present value of future cash flows, provided that it is sufficiently deep to be considered as representative of the amount that would be recovered by the Bank.

Impairment losses on debt instruments at amortised cost are recognised in an allowance account that reduces the carrying amount of the asset, while impairment losses on debt instruments at fair value through other comprehensive income are recognised in equity of the Entity. Impairment losses on exposures entailing credit risk other than debt instruments are recognised as a provision under liabilities on the balance sheet. Impairment losses for the period are recognised as an expense in the income statement.

Subsequent reversals of previously recognised allowances and provisions for impairment are recognised immediately as income in the income statement for the period in which the amount is recovered.

Objective evidence of impairment is determined individually for all doubtful debt instruments that are individually significant, and collectively for groups of debt instruments that are not individually significant. When a specific instrument cannot be included in any group of assets with similar credit risk characteristics, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss. Impairment is therefore broken down as follows, depending on how it is calculated:

- Specific impairment allowances for financial assets, determined individually: the cumulative amount of allowances recorded to cover doubtful assets, estimated individually.

- Specific impairment allowances for financial assets, determined collectively: the cumulative amount of collective impairment calculated for debt instruments of immaterial amounts classified as doubtful, for which impairment has been determined individually, and for which the Entity uses the specific allowance applying percentages for collective allowances based on the age of the past-due amounts, in accordance with Annex IX of Banco de España Circular 4/2017 and subsequent amendments.

- Collective impairment allowances for losses incurred but not reported: the generic allowance or provision estimated collectively for debt instruments classified as standard exposures or standard exposures under special monitoring.

Collective assessment of a group of financial assets to estimate impairment losses is carried out as follows:

Debt instruments are included in groups with similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, both principal and interest, according to the contractual terms. The credit risk characteristics to be taken into account for grouping assets are, among others: instrument type, the debtor's industry, geographical location, type of guarantee or collateral, age of past-due amounts and any other factor relevant to the estimation of future cash flows.

The future cash flows from each group of debt instruments are estimated for instruments with credit risk characteristics similar to those in the respective group.

The impairment loss of each group is the difference between the carrying amount of all the debt instruments in the group and the present value of the estimated future cash flows.

Debt instruments not included in financial assets held for trading and off-balance sheet exposures are classified, based on the insolvency risk attributable to the customer and the transaction, in the following categories: standard exposures, standard exposures under special monitoring, doubtful as a result of borrower arrears, doubtful for reasons other than borrower arrears, and write-off. For individually significant debt instruments that are not classified as standard exposures or standard exposures under special monitoring, based on the past experience of the Entity and the sector, specific allowances or provisions for impairment estimated individually are determined taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and, if applicable, the guarantors. For the remaining debt instruments, the specific or generic allowances and provisions estimated collectively are determined using the parameters defined by Banco de España in Circular 4/2017.

The Entity classifies transactions whose credit risk has not increased significantly since their initial recognition as standard exposures. The allowance or provision for impairment shall be equal to the 12-month expected credit losses. Interest income shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.

The Entity classifies transactions whose credit risk has increased significantly since their initial recognition, but for which there is no related default event, as standard exposures under special monitoring. The allowance or provision for impairment shall be equal to the lifetime expected credit losses. Interest income shall be calculated applying the effective interest rate to the gross carrying amount of the transaction. All borrowers declared subject to bankruptcy proceedings which do not qualify for classification as doubtful exposures, insofar as they have paid at least 25% of the credit that is affected by the bankruptcy proceedings or because two years have elapsed since the creditors' agreement was approved, provided that this agreement is being faithfully performed and there are no doubts regarding full repayment of all debts, are also classified as standard exposures under special monitoring.

The Entity uses the indicators in Annex IX of Banco de España Circular 4/2017 to determine a significant increase in credit risk for transactions classified as standard exposures under special monitoring.

The classification of refinanced or restructured transactions takes into account the payment history over a long period of time, any grace periods granted, any new effective guarantees or collateral provided and the ability to generate resources, amongst other factors, which determine their classification as doubtful exposures or standard exposures under special monitoring.

The refinancing or restructuring of transactions in arrears does not interrupt their classification as doubtful, unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided and, in both cases, unless at least the current interest receivable is paid.

The amount of financial assets that would have been impaired had their terms not been renegotiated is not significant with respect to the annual accounts taken as a whole. The purpose of the transactions identified by the Bank as refinancing or restructuring transactions is essentially to improve the allowance or provision for such operations by providing additional guarantees or collateral. With respect to these transactions, for 2020 and 2019 there are no significant differences between the carrying amount of the derecognised assets and the fair value of the new assets. Furthermore, the aforementioned transactions do not delay or reduce the allowance or provision that would have been required had they not been modified, inasmuch as at the modification date, impairment had already been recognised thereon where necessary and before arranging this type of transaction the Bank recognises the pertinent allowances and provisions for insolvency.

Similarly, debt instruments not measured at fair value through profit or loss and off-balance-sheet exposures, whosoever the customer, are analysed to determine the associated credit risk attributable to country risk. Country risk is understood as the risk associated with customers resident in a specific country due to circumstances other than normal commercial risk.

In addition to the previously mentioned specific allowances or provisions for impairment estimated individually or collectively, the Entity recognises a general allowance or provision estimated collectively for losses incurred but not reported, in respect of the losses inherent in other debt instruments not measured at fair value through profit or loss and in off-balance-sheet exposures classified as standard exposures or standard exposures under special monitoring. These allowances and provisions are estimated using the parameters defined by Banco de España in Circular 4/2017.

Impairment of the carrying amount of debt instruments at amortised cost is recognised with a charge to the income statement for the period in which the impairment becomes evident, and any reversals of previously recognised impairment losses are recognised in the income statement for the period in which the impairment is reversed or reduced. Balances are derecognised from the balance sheet when the possibility of their recovery is considered remote, without prejudice to any initiatives of the Entity to recover such amounts before the collection right expires by becoming time-barred, through debt forgiveness or for other reasons. The remaining amount of transactions with amounts derecognised (partial derecognition) is classified in full in the category corresponding to it on the basis of the credit risk attributable to the borrower.

The amount of the impairment losses incurred on debt securities and equity instruments included under "Financial assets at fair value through other comprehensive income" is the positive difference between their cost of acquisition, net of any principal repayment, and their fair value.

When there is objective evidence that the decline in fair value is due to impairment, the unrealised losses recognised directly as "Accumulated other comprehensive income" in equity are recorded immediately in the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognised in the income statement for the period in which the recovery occurred in the case of debt securities, and as "Accumulated other comprehensive income" in equity in the case of equity instruments.

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

In the case of investments in subsidiaries, jointly controlled entities and associates, the Entity estimates impairment by comparing their recoverable amount with their carrying amount. Impairment losses are recognised in the income statement for the period in which they occur and subsequent reversals are recognised in the income statement for the period in which they are recovered.

f) Acquisition and sale of assets with a resale or repurchase agreement

Purchases (sales) of financial instruments with an obligatory resale (repurchase) commitment at a determined price are recognised as financing granted (received) under "Financial assets at amortised cost" ("Financial liabilities at amortised cost"), in line with the nature of the borrower (lender).

The difference between the purchase and sale prices is recognised as interest over the life of the contract.

g) Investments in subsidiaries, joint ventures and associates

I. Group companies

Group companies are those entities over which the Bank has control. An entity controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

To be considered a subsidiary, all of the following must occur:

- Power: An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

- Returns: An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or wholly positive and negative.

- Link between power and returns: An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

Investments in Banco Cooperativo Español, S.A. Group companies are presented in these annual accounts under "Investments in subsidiaries, joint ventures and associates" in the balance sheet and are measured at cost of acquisition, net of any possible impairment losses.

Dividends accrued in the year on these investments are recognised under "Dividend income" in the income statement.

At 31 December 2020 and 2019 there are no significant restrictions on the ability of the Banco Cooperativo Español, S.A. Group companies to transfer funds to the parent in the form of dividends or repayments of loans or advances.

II. Associates

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

Investments in associates are presented in these annual accounts under "Investments in subsidiaries, joint ventures and associates" in the balance sheet and are measured at cost of acquisition, net of any possible impairment losses.

Dividends accrued in the year on these investments are recognised under "Dividend income" in the income statement.

Relevant information on Banco Cooperativo Español, S.A. Group companies is provided in Appendix I.

III. Calculation of impairment

The Bank estimates and recognises impairment losses on the equity instruments that constitute investments in Group companies and associates, which for the purposes of preparing these annual accounts are not considered financial instruments, as follows: when, in accordance with Circular 4/2017, there is evidence of impairment of these investments, the amount of this impairment is estimated as the negative difference between their recoverable amount (calculated as the higher of the fair value of the investment, less costs to sell, and its value in use, which is defined as the present value of the cash flows expected to be received from the investment as dividends and proceeds from its sale or other disposal) and their carrying amount.

Impairment losses on these investments and possible reversals thereof are recognised as a charge or credit, respectively, in "Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates" in the income statement.

h) Tangible assets

Tangible assets for own use are measured at cost of acquisition, revalued as permitted by specific legislation and the new accounting standards, less accumulated depreciation and any impairment losses.

Depreciation of tangible assets is provided on a straight-line basis over their estimated useful lives. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated.

The annual depreciation charge is recognised in the income statement and is calculated using the following rates, based on the average years of estimated useful life of the different groups of assets:

	% annual	**Estimated useful life (years)**
Buildings	2	50
Furniture and fixtures	6-10	16.7-10
IT equipment	16-33	6.3-3

The Bank reviews the depreciation method and useful life of each tangible asset at least at each year end.

Repair and maintenance costs which do not improve the related assets or extend their useful life are expensed when incurred.

i) Intangible assets

Intangible assets are identifiable non-monetary assets with no physical substance, arising as a result of a legal transaction or which have been developed internally by the Bank. Intangible assets are only recognised when their cost can be reasonably and objectively estimated and when the Bank considers it probable that future economic benefits will be obtained.

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

j) Leases

I. <u>Finance leases</u>

Finance leases are leases that transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset.

When the Bank acts as the lessor of an asset, the sum of the present values of the lease payments receivable from the lessee plus the guaranteed residual value, which is generally the exercise price of the purchase option available to the lessee at the end of the lease term, is recognised as financing to third parties and is therefore included under “Financial assets at amortised cost” in the balance sheet.

When the Bank acts as the lessee, it recognises the cost of the leased assets in the balance sheet according to the nature of the asset that is the subject matter of the contract, and simultaneously recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present values of the lease payments to be made to the lessor, plus the exercise price of the purchase option, where applicable). The depreciation policy for these assets is consistent with that for tangible assets for own use.

In both cases, the finance income and finance cost arising from these contracts is credited or debited, respectively, to the income statement so as to achieve a constant rate of return over the life of the lease contracts.

II. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the Bank acts as the lessor, it recognises the acquisition cost of the leased assets under "Tangible assets" in the balance sheet. The depreciation policy for these assets is consistent with that for similar tangible assets for own use and income from operating leases is recognised in the income statement on a straight-line basis.

When the Bank acts as the lessee, lease expenses, including any incentives granted by the lessor, are charged to the income statement on a straight-line basis.

On 1 January 2019 Banco de España Circular 2/2018 entered into force and includes amendments to lessee accounting. The single lessee accounting model requires a lessee to recognise assets and liabilities for all leases. The standard sets out two exceptions to the recognition of lease assets and liabilities, that can be applied in the case of short-term contracts and those for which the underlying asset is of low value.

The lessee must recognise under assets a right to use that represents its right to use the leased asset and which is recognised under tangible assets - property, plant and equipment for own use on the balance sheet (see note 12) and a lease liability that represents its obligation to make lease payments that are recognised under financial liabilities at amortised cost - other financial liabilities on the balance sheet (see note 14).

At the commencement date, the lease liability represents the present value of the lease payments that are not paid at that date. Liabilities recognised in this balance sheet item are measured after initial recognition at amortised cost, which is determined using the effective interest method.

Right-of-use assets are initially recognised at cost. The cost of the right-of-use asset includes the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, all initial direct costs incurred; and an estimate of costs to be incurred by the lessee such as costs relating to dismantling and removing the underlying asset. The assets recognised in this balance sheet item are measured after their initial recognition at cost less:

- Any accumulated depreciation and any accumulated impairment losses; and

- Any remeasurement of the corresponding lease liability.

Interest on the lease liability is recognised under interest expenses in the income statement (see note 25 (a)). Variable lease payments not included in the initial measurement of the lease liability are recognised under administrative expenses - other administrative expenses (see note 30).

Depreciation is calculated, on a straight-line basis over the cost of the assets over the lease term. Depreciation of tangible assets is recognised under depreciation and amortisation in the income statement (see note 12).

If the lessee elects one of the two exceptions to not recognise the corresponding right-of-use asset and liability on the balance sheet, the lease payments associated with the corresponding leases are recognised in the income statement over the lease term or on a straight-line basis or any other basis that is more representative of the pattern of the lessee's benefit, under other operating expenses - other operating expenses (see note 29).

Income from sub-leases and operating leases is recognised under other operating income in the income statement (see note 29).

The new standard substantially carries forward the lessor accounting requirements from 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.

The lessor accounting model requires that, from commencement date, leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Leases that are not finance leases are considered to be operating leases.

In operating leases, if the entities act as lessors, they recognise the acquisition cost of the leased assets under tangible assets - property, plant and equipment - leased out under operating leases on the balance sheet (see note 12). The depreciation policy for these assets is consistent with that for similar tangible assets for own use and income and expenses from operating leases is recognised in the income statement on a straight-line basis under other operating income and other operating expenses, respectively (see note 29).

In the case of sale and leasebacks at fair value, profit or loss on the sale is recognised for the part effectively transferred, in the income statement at the transaction date.

k) Exchanges of assets

An “exchange of assets” is understood to be 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 annual accounts, foreclosures of assets in settlement of amounts due to the companies from third parties 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 commercial substance, as defined in applicable regulations, 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 given, except when there is much clearer evidence of the fair value of the asset received.

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

l) Offsetting of balances

Receivables and payables may only be used to offset each other (and are therefore presented in the balance sheet 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.

m) Financial guarantees and related provisions made

A contract is considered a financial guarantee if it requires an entity to pay specific amounts on behalf of a third party in the event that the latter is unable to do so, irrespective of the manner in which the obligation is instrumented: security deposit, bank guarantee, irrevocable documentary credit issued or confirmed by the entity, etc.

In accordance with Banco de España Circular 4/2017 and as a general rule, the Bank considers financial guarantee contracts extended to third parties as financial instruments.

On initial recognition, the Bank records financial guarantees extended under liabilities at fair value plus directly attributable transaction costs, which is generally equivalent to the premium received plus the present value of any fees and commissions and similar income to be received throughout the term of these contracts, with a balancing entry under assets in the amount of fees and commissions and similar income collected at the outset of the transactions and the present value of fees and commissions and similar income receivable. Subsequently, these contracts are recognised under liabilities at the higher of the following amounts:

- The amount determined in accordance with Circular 4/2017. In this respect, financial guarantees, irrespective of the holder, 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.

- The amount at which these instruments are initially recognised, less amortisation, which is charged to the income statement on a straight-line basis over the term of these contracts.

Provisions made for these instruments, are recorded as "Provisions – Commitments and guarantees given" under liabilities in the balance sheet. Allowances for and reversals of these provisions are recognised with a balancing entry under "Provisions or (-) reversal of provisions" in the income statement.

In the event that, pursuant to the foregoing, a provision were required for these financial guarantees, unaccrued fees and commissions on these transactions, which are recognised under "Financial liabilities at amortised cost – Other financial liabilities", are reclassified to the corresponding provision.

n) Foreign currency transactions

I. 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.

II. Translation of foreign currency balances

Foreign currency balances are translated as follows:

- Monetary assets and liabilities, at the average exchange rate in force on the Spanish spot foreign exchange market at year end.

- Income and expenses, at the exchange rate on the transaction date.

III. Recognition of exchange differences

Exchange differences arising on the translation of foreign currency balances are recognised in the income statement (see notes 28 and 35.5).

o) Own equity instruments

Instruments issued by the Bank are only considered as own equity when the following conditions are met:

- They do not include any contractual obligation for the issuer:

    - to deliver cash or another financial asset to a third party; or

    - to exchange financial assets or financial liabilities with third parties under conditions that are potentially unfavourable for the Entity.

- They will or may be settled in the issuer's own equity instruments and are:

    - a non-derivative that includes no obligation for the issuer to deliver a variable number of its own equity instruments; or

    - a derivative that will be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

A financial instrument that does not meet the conditions stipulated in the two preceding paragraphs, even if it is a derivative financial instrument that may or must be settled by the future delivery or receipt of the issuer's own equity instruments, is not an equity instrument.

Transactions involving own equity instruments, including their issuance and redemption, are recognised directly in equity of the Entity, and no profit or loss thereon may be recognised. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

Changes in the value of instruments classified as own equity instruments are not recorded in the financial statements. Consideration received or paid in exchange for such instruments is directly added to or deducted from equity of the Entity.

p) Recognition of income and expenses

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

I. <u>Interest income and expenses and similar items</u>

As a general rule, interest income, interest expenses and similar items are recognised on an accruals basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them is established.

II. <u>Commissions, fees and similar items</u>

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- Those relating to financial assets and financial liabilities at fair value through profit or loss are recognised upon collection.

- Those originating from transactions or services carried out over an extended period are deferred over the term of the transactions or services.

- Those relating to the provision of a service in a single act are recognised when the single act is carried out.

III. Non-finance income and expenses

These items are recognised on an accruals basis.

q) Assets under management

Assets owned by third parties and managed by Banco Cooperativo Español, S.A. Group companies are not disclosed in the balance sheet. Details of the third-party assets managed by the Banco Cooperativo Español, S.A. Group at 31 December 2020 and 2019 are disclosed in note 23.

r) Post-employment benefits

The Bank recognises the present value of defined benefit pension commitments, net of the fair value of the plan assets and the past service cost, the recognition of which is deferred as explained below, in "Provisions - Pensions and other post-employment defined benefit obligations" under liabilities, or in "Other assets - Insurance contracts linked to pensions" under assets, depending on whether the difference is negative or positive, and provided that the recognition criteria set out in Banco de España Circular 5/2013 are met.

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 plan assets are sufficient to meet all obligations of the plan or of the Entity relating to current or former employee benefits or to reimburse employee benefits already settled by the Bank.

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 qualify as a plan asset, the Bank recognises this reimbursement right in "Insurance contracts linked to pensions", under assets in the balance sheet. This right is treated as a plan asset in all other respects.

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 arising on post-employment commitments with employees in the year in which they are generated or incurred, with a credit or debit to the income statement.

The past service cost, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the income statement on a straight-line basis over the period between the date the new commitments arise and the date these benefits are vested.

Post-employment benefits are recognised in the income statement as follows:

- The current service cost, defined as the increase in the present value of the obligations resulting from employee service in the current period, is recognised under "Administrative expenses - Personnel expenses".

- The interest cost, defined as the increase during the year in the present value of the obligations as a result of the passage of time, is recognised under "Interest expense". When obligations are presented under liabilities net of plan assets, the cost of the liabilities recognised in the income statement is only that relating to the obligations recorded under liabilities.

- The expected return on plan assets and gains or losses on the value of the plan assets, less any plan administration costs and any applicable taxes, is recorded under "Interest income".

Under the collective labour agreement currently in force, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability, death of spouse or death of parent, and other benefits.

In accordance with Royal Decree 1588/1999, in 2000 the Bank externalised its pension commitments through an insurance contract with Seguros Generales Rural, S.A. de Seguros y Reaseguros.

Details of the present value of the Bank's post-employment benefit obligations at the 2020 and 2019 reporting dates are as follows:

	Thousands of Euros	
	2020	**2019**
Present value of obligations	(1,770)	(1,740)
Fair value of plan assets	1,741	1,696
Negative difference	**(29)**	**(44)**

The amount of the obligations was determined by independent actuaries applying, inter alia, the following criteria:

1. *Calculation method*: projected unit credit method, which considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. *Actuarial assumptions used*: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2020	**2019**
Annual technical interest rate	1.28%	1.50%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Expected rate of return on plan assets	1.28%	1.50%
Annual salary increase rate	1.90%	2.50%
Annual Social Security pension increase rate	0.00%	1.50%

An estimate has been made of the rise in the Bank's post-employment and long-term obligations in the event of applying the mortality tables published by the Directorate-General for Insurance and Pension Funds on 28 December 2020. Should the first-order PER2020 mortality tables be used for groups, the rise in defined benefit obligations would not entail a significant increase.

In 2014 the Bank implemented a defined contribution supplementary benefit scheme through a pension plan arranged with the insurance firm Seguros Generales Rural, S.A. de Seguros y Reaseguros, as stipulated in article 36.7 of the 22nd collective bargaining agreement for the banking sector. This scheme is addressed to employees hired as of 8 March 1980 and who have accumulated at least two years' service. The minimum annual contribution is Euros 450, with profit-sharing rights in favour of the employee should he or she leave the Bank for reasons other than retirement.

s) Termination benefits

In accordance with current legislation, the Bank pays compensation to those employees whose services are discontinued without just cause. Termination benefits are accounted for as a provision for pensions and similar obligations and as personnel expenses when the Entity has clearly undertaken a commitment to dismiss an employee or group of employees before their retirement date or to compensate an employee or group of employees to encourage their voluntary departure from the company.

t) Income tax

The income tax expense for the year is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity.

The income tax expense is determined by the tax payable on the taxable profit for the year after taking account of any changes in that year due to temporary and permanent differences, tax credits for tax deductions and benefits, and tax loss carryforwards.

Deferred tax assets and liabilities include temporary differences, identified as the amounts expected to be paid or recovered in respect of the difference between the carrying amount of the assets and liabilities and their tax base (tax value).

Deferred tax assets, credits and deductions and loss carryforwards are only recognised when it is considered likely that the Bank will generate sufficient future taxable profit against which they can be utilised.

Deferred tax assets and liabilities are measured by applying to the relevant temporary difference or credit the tax rate at which they are expected to be realised or settled.

Deferred tax liabilities are always recognised, except when goodwill is recognised or when they arise in accounting for investments in subsidiaries, associates or joint ventures where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the future. Nevertheless, deferred tax assets and liabilities are not recognised if they arise from the initial recognition of an asset or liability other than a business combination that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at year end to determine whether they still exist, and the appropriate adjustments are made based on the findings of the analyses performed.

Income and expenses recognised directly in equity are accounted for as temporary differences.

u) Cash flow statement

The Bank reports its cash flows applying the indirect method, using the following expressions and classification criteria:

- 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.

- Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing.

- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and liabilities and that are not operating activities.

When preparing the cash flow statement, “Cash and cash equivalents in central banks” have been considered as cash and cash equivalents.

v) Statement of recognised income and expense

This statement comprises income and expenses generated or incurred by the Bank during the year in the ordinary course of business, distinguishing between amounts recognised in the income statement for the year and those recognised directly in equity, in accordance with current legislation.

Accordingly, this statement presents:

a) Profit or loss for the year.

b) Net income and expenses recognised temporarily as valuation adjustments in equity.

c) Net income and expenses recognised permanently in equity.

d) Accrued income tax payable or recoverable 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 valuation adjustments are as follows:

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

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

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 year in accordance with criteria established under current legislation.

The amounts disclosed in these items are presented gross, and the related tax effect is recognised under “Income tax”.

w) Statement of total changes in equity

This statement presents all changes in equity, including those arising from changes in accounting criteria and the correction of errors. This statement therefore shows a reconciliation of the opening and closing carrying amounts of all items that make up equity, grouping movements according to their nature, as follows:

a) Adjustments for 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) Income and expenses recognised during the year: the aggregate amount of all of the aforementioned items recorded in the statement of recognised income and expense.

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

3. Distribution of Profit and earnings per share

Distribution of profit

The Board of Directors will propose for approval by the Shareholders at the annual General Meeting that the Bank's net profit for 2020 be distributed as follows:

	Thousands of Euros
Net profit for 2020	42,265
Distribution:	
Interim dividend	-
Reserves:	42,265
Legal	1,457
Voluntary	40,808

The distribution of the Bank's net profit for 2019, approved by the Shareholders at their annual General Meeting held on 7 May 2020, was as follows:

	Thousands of Euros
Net profit for 2019	32,009
Distribution:	
Dividends	-
Reserves:	32,009
Legal	1,245
Voluntary	30,764

Earnings per share

Earnings per share are calculated by dividing the net profit by the number of ordinary shares outstanding during the year.

	2020	**2019**
Net profit (thousands of Euros)	42,265	32,009
Number of ordinary shares outstanding (note 19)	2,151,708	2,030,520
Earnings per share (Euros)	19,64	15.76

4. Information on Directors and Senior Management

Remuneration of Directors

Details of gross remuneration received by members of the Bank's Board of Directors for allowances in 2020 and 2019 are as follows:

Directors	Thousands of Euros 2020	Thousands of Euros 2019	
D. Ignacio Arrieta del Valle (Chairman)	11	12	
D. José Luis García-Lomas Hernández (First Vice chairman)	10	10	
D. Pedro García Romera (Second Vice Chairman)	7	12	Director until 14/09/2020
D. Luis Esteban Chalmovsky	11	9	
D. Carlos Martínez Izquierdo	11	12	
D. Carlos de la Sierra Torrijos	11	12	
D. Cipriano García Rodríguez (1)	10	12	
Dña. Dagmar Werner	10	12	
D. José María Quirós Rodríguez	-	6	Director until 20/06/2019
D. Fernando Berge Royo	11	12	
D. Jesús Méndez Álvarez-Cedrón (2)	11	12	
D. Manuel Antonio Ruíz Escudero	11	12	
D. Ernesto Moronta Vicente	11	12	
D. Gerónimo Luque Frías	11	7	Director since 31/05/2019
D. Jose Luis García-Palacios Álvarez	11	1	Director since 30/10/2019
D. Fernando Martínez Rodríguez	11	1	Director since 10/12/2019
Total	**158**	**154**	

(1) Allowances received by Caja Rural de Zamora, SCC
(2) Allowances received by Caixa Rural Galega, SCC

Public liability insurance

The Directors and Executives of the Bank have a public liability insurance policy, for which the premium is borne by the Spanish Association of Rural Savings Banks. In 2020 and 2019, this item had no impact on the Bank's income statement.

Loans

The Group has extended no loans to the Bank's Directors at 31 December 2020 or 2019.

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 articles 228 and 229 of the Revised Spanish Companies Act, amended by Law 31/2014 of 24 December 2014.

Remuneration of Senior Management

For the purposes of preparing the accompanying annual accounts, Senior Management comprises the 13 members of the Bank's steering committee in 2020 and 2019, considered to be key management personnel within the Bank.

The following table details the remuneration received by Senior Management personnel in 2020 and 2019:

	Thousands of Euros					
	Remuneration received		Deferred remuneration during the year (*)		Total	
	2020	2019	2020	2019	2020	2019
Senior Management personnel	2,396	2,300	60	58	2,456	2,358

(*) This remuneration accrued during 2020 and 2019 is payable at 31 December 2020 and 2019.

Accrued variable remuneration is calculated on a best estimate basis using information available at the date these annual accounts were drawn up, and is settled in accordance with the Remuneration Policy approved by the Board of Directors. Settlements of variable remuneration take into account all remuneration requirements approved by the remuneration committee and applicable to the employees in question. These requirements are governed by the mandatory standards imposed on credit institutions by the regulatory framework in force.

The characteristics of the variable remuneration model approved by the Board of Directors are as follows:

40% of the variable remuneration is deferred over a period of four years, the payment schedule being as follows ("Deferred Variable Remuneration"):

- One fourth is payable one year after the scheduled date for employees and management of the Bank ("General Payment Date") in general. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable two years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable three years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

- One fourth is payable four years after the general payment date. 50% cash and 50% share-based with a retention period of one year.

The remaining 60% of variable remuneration shall be paid as follows:

- 50% in cash at the general payment date.
- 50% as share-based payment with a one-year retention period, i.e. it shall not be effective earlier than one year after the general payment date.

Principle of proporcionality

In keeping with the "principle of proportionality", and with the entry into force of CRD V, the requirements relating to the deferral and pay-out in instruments of variable remuneration granted to members of the identified group will not apply in any of the following circumstances:

- Where Banco Cooperativo does not qualify as a large entity as defined in Article 4.1.146 of Regulation (EU) No 575/2013 and the average value of its assets on an individual basis is equal to or less than Euros 5 billion over the four-year period immediately preceding the current year;
- Where the annual variable remuneration of a member of the identified group does not exceed Euros 50,000 and does not represent more than one third of their total annual remuneration.
- In the event that the foregoing thresholds are modified (increased, reduced or, as the case may be, removed) as a result of the transposition of CRD V into Spanish law or, subsequently, as a result of any other regulatory change, Banco Cooperativo will apply the thresholds in force at any given time.

Gender distribution of the Board of Directors

At 31 December 2020 the Board of Directors was formed by thirteen male and one female members. Fourteen male and one female members at 31 December 2019.

5. Cash, cash balances with central banks and other demand deposits

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Cash	512	542
Cash balances with central banks		
Banco de España		
Current account	3,191,528	247,520
Other demand deposits	84,548	1,310,209
	3,276,588	**1,558,271**

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in this balance sheet caption are provided under Risk Management (see note 35).

6. Financial assets and liabilities held for rading

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed according to geographical areas and activity segment, are provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Details of these balance sheet items, by type of instrument, at 31 December 2020 and 2019, are as follows:

	Thousands of Euros	
	2020	**2019**
Assets		
Derivatives	1,271,637	937,657
Equity instruments	3,153	3,258
Debt securities	87,526	53,360
Total assets	**1,362,316**	**994,275**
Liabilities		
Derivatives	1,482,235	1,319,020
Total liabilities	**1,482,235**	**1,319,020**

Financial assets and financial liabilities held for trading. Trading derivatives

The derivatives portfolio arises from the Bank's need to manage the risks to which it is exposed in the ordinary course of business, and the need to market these products to customers. At 31 December 2020 and 2019, derivatives were mainly arranged on OTC markets, the counterparties were credit institutions and other non-financial corporations, and they were associated with currency, interest rate and share risk.

Details, by type of risk and type of product or market, of the fair value as well as notional amounts relating to financial derivatives recognised on the balance sheets, differentiating between official and OTC market arrangements, at 31 December 2020 and 2019, are as follows:

	Thousands of Euros					
	31.12.2020			31.12.2019		
	Assets	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**
Interest rate	**1,244,609**	**1,456,198**	**25,965,361**	**908,261**	**1,290,448**	**28,310,604**
OTC options	14,683	14,679	354,872	17,577	17,577	332,908
OTC other	1,229,926	1,441,519	25,610,489	890,684	1,272,871	27,944,096
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	33,600
Equity instruments	**17,020**	**16,582**	**1,339,208**	**25,050**	**24,589**	**316,517**
OTC options	1,559	709	27,444	1,541	660	27,196
OTC other	15,461	15,873	1,311,764	23,509	23,.929	289,321
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Foreign exchange and gold	**5,343**	**7,278**	**290,023**	**4,346**	**3,171**	**68,922**
OTC options	41	41	1,711	54	54	5,875
OTC other	5,302	7,237	288,312	4,292	3,117	63,047
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Credit	-	-	-	-	-	-
Credit default swaps	-	-	-	-	-	-
Credit spread options	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-
Other	-	-	-		-	-
Commodities	-	-	-	-	-	-
Other	**4,665**	**2,177**	**7,490**	**-**	**812**	**7,701**
Derivatives	**1,271,637**	**1,482,235**	**27,602,082**	**937,657**	**1,319,020**	**28,703,744**
Of which: OTC - Credit institutions	*1,066,027*	*1,045,027*	*15,789,620*	*786,362*	*624,227*	*12,610,340*
Of which: OTC - Other financial corporations	*190,107*	*433,100*	*11,641,878*	*148,780*	*694,666*	*16,000,652*
Of which: OTC - Other	*15,503*	*4,108*	*170,584*	*2,515*	*127*	*92,752*

Financial assets held for trading. Equity instruments

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Other financial corporations	3,153	3,258
Total	**3,153**	**3,258**

Financial assets held for trading. Debt securities

Details of balances of debt securities by counterparty are as follows:

	Thousands of Euros	
	2020	**2019**
General governments	78,281	20,058
Credit institutions	1,164	11,690
Other financial corporations	4,998	10,491
Non-financial corporations	3,083	11,121
Total	**87,526**	**53,360**

At 31 December 2020 and 2019 the Bank did not have any loaned or pledged securities.

7. Non-trading financial assets mandatorily at fair value through profit or loss

A breakdown of this item by type of instrument at 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	2020	**2019**
Instrument		
Equity instruments	-	-
Debt securities	2,068	2,068
Loans and advances	7,747	10,830
Total	**9,815**	**12,898**

A breakdown of this item by geographical area and category of counterparty at 31 December 2020 and 2019 is as follows:

	Thousands of Euros	
	2020	**2019**
Geographical area		
Spain	9,815	12,898
Rest of European Union	-	-
Other	-	-
	9,815	**12,898**
Counterparty		
Other financial corporations	2,037	2,037
Non-financial corporations	7,778	10,861
Total	**9,815**	**12,898**

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

A breakdown of financial assets designated at fair value through profit or loss, by type of instrument and counterparty, at 31 December 2020 and 2019, is as follows:

	Thousands of Euros	
	2020	**2019**
Debt securities	529,057	107,696
General governments	498,396	77,564
Credit institutions	30,661	30,132
Total	**529,057**	**107,696**

At 31 December 2020 the Bank had loaned or pledged securities for an amount of 368,152 thousand euros (it did not have at 31 December 2019).

Note 35 includes details of the distribution of the carrying amount of the most significant financial assets disclosed according to geographical area and activity segment.

9. Financial assets designated at fair value through other comprehensive income

Details of this item, by instrument and counterparty, are as follows:

	Thousands of Euros	
	2020	**2019**
Equity instruments	**42,596**	**40,007**
Shares in Spanish companies	42,596	40,007
Credit institutions	2,644	2,684
Other financial corporations	11,171	13,870
Non-financial corporations	28,781	23,453
Shares in foreign companies	-	-
Debt securities	**1,534,901**	**2,289,922**
Central banks	-	-
General governments	1,254,536	2,037,317
Credit institutions	23,336	30,686
Other financial corporations	121,880	107,018
Non-financial corporations	136,371	115,916
Impairment losses	(1,222)	(1,015)
Loans and advances	-	**-**
	1,577,497	**2,329,929**

Loaned or pledged securities amount to 430,052 thousand euros at 31 December 2020 (2,025,650 thousand euros in 2019).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed according to geographical areas and activity segment, are provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Past-due impaired assets

In 2020 and 2019 equity instruments are not considered to be impaired.

Details of movement in changes in the value of financial assets classified in this category are provided in note 18 Accumulated other comprehensive income.

10. Financial assets at amortised cost

Details of the balances of this item at 31 December 2020 and 2019, based on the nature of the financial instrument giving rise to them, are as follows:

	Thousands of Euros	
	2020	**2019**
Debt securities	**2,446,446**	**1,173,045**
Of which: Impairment losses	-	-
Loans and advances to credit institutions	**2,770,731**	**1,547,843**
Of which: Impairment losses	*(209)*	*(237)*
Loans and advances to customers	**1,468,178**	**1,346,906**
General governments	385,941	364,376
Other financial corporations	452,374	488,141
Non-financial corporations	517,913	376,281
Households	111,950	118,108
Of which: Impairment losses	*(20,078)*	*(22,353)*
Total	**6,685,355**	**4,067,794**

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category, as well as details of the distribution of the carrying amount of the most significant financial assets disclosed, based on geographical area and activity segment is provided under Risk Management in note 35, and certain information on the fair value of these assets is provided in note 24.

Financial assets at amortised cost. Debt securities

Details at 31 December 2020 and 2019, by instrument, are as follows:

	Thousands of Euros	
	2020	**2019**
General governments	2,446,446	1,173,045
Other financial corporations	-	-
	2,446,446	**1,173,045**
Impairment losses	-	-
Total	**2,446,446**	**1,173,045**

Securities recognised in this portfolio and totalling Euros 27,623 thousand matured in 2020 (Euros 28,000 thousand in 2019).

Loaned or pledged securities amount to Euros 618,354 thousand at 31 December 2020 (Euros 11,000 thousand at 31 December 2019).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category is provided under Risk Management in note 35, whereas certain information on the fair value of these assets is provided in note 24.

Financial assets at amortised cost. Loans and advances to credit institutions

Details by instrument are as follows:

	Thousands of Euros	
	2020	**2019**
Credit card debt	3	15
Reverse repurchase loans	638,404	1,277,762
Other term loans	595,752	240,951
Advances that are not loans	1,536,572	29,115
Total	**2,770,731**	**1,547,843**
Of which:		
Impairment losses	*(209)*	*(237)*

Financial assets at amortised cost. Loans and advances to customers

Details by instrument and transaction status are as follows:

	Thousands of Euros	
	2020	**2019**
On demand, short notice (current account)	1	2,517
Credit card debt	572	631
Commercial loan portfolio	96,810	85,721
Finance leases	2,234	922
Other term loans	936,899	800,049
Advances that are not loans	431,662	457,066
Total	**1,468,178**	**1,346,906**
Of which:		
Impaired assets	*2,519*	*1,681*
Impairment losses	*(20,078)*	*(22,353)*

11. Investments in subsidiaries, joint ventures and associates

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Rural Informática, S.A.	2,603	2,603
Rural Inmobiliario, S.L.	3,486	3,486
BCE Formación, S.A.	60	60
Espiga Capital Gestión, S.A.	-	288
Rural Renting, S.A.	600	600
Total	**6,749**	**7,037**

On 9 November 2020, the Bank sold all its investments in Espiga Capital Gestión, S.A. Proceeds from the sale amounted to Euros 479 thousand, giving rise to a gain of Euros 191 thousand recognised under “Gains or (-) losses on derecognition of non-financial assets, net” in the accompanying income statement.

All the securities included in this item at 31 December 2020 and 2019 are not quoted on official markets.

Appendix I includes certain relevant information on the Bank's investees.

12. Tangible assets

Movement in 2020 and 2019 is as follows:

	Thousands of Euros			
	Buildings	**Furniture and fixtures**	**IT equipment**	**Total**
Cost				
Balances at 31 December 2018	-	3,780	3,751	7,531
Additions	3,823	359	219	4,401
Disposals	-	-	-	-
Balances at 31 December 2019	3,823	4,139	3,970	11,932
Additions	71	175	568	814
Disposals	-	-	-	-
Balances at 31 December 2020	3,894	4,314	4,538	12,746
Accumulated depreciation				
Balances at 31 December 2018	-	(2,693)	(3,110)	(5,803)
Charges	(722)	(222)	(297)	(1,241)
Disposals	-	-	-	-
Balances at 31 December 2019	(722)	(2,915)	(3,407)	(7,044)
Charges	(718)	(242)	(348)	(1,308)
Disposals	-	-	-	-
Balances at 31 December 2020	(1,440)	(3,157)	(3,755)	(8,352)
Net tangible assets				
Balances at 31 December 2019	**3,101**	**1,224**	**563**	**4,888**
Balances at 31 December 2020	**2,454**	**1,157**	**783**	**4,394**

At 31 December 2020 and 2019 the cost of fully depreciated tangible assets for own use amounts to Euros 3,763 thousand and Euros 3,804 thousand, respectively.

During the 2020 financial year, the Bank registered 71 thousand euros (3,823 thousand euros in 2019) for rights to use leases (see note 2 (j)).

At 31 December 2020 and 2019, the Bank has no tangible assets on which there are any ownership restrictions, or which are pledged as collateral. Neither does it have any commitments to acquire tangible assets from third parties. No compensation or indemnities for the impairment or decline in value of tangible assets for own use were received from third parties in those years, nor are they expected to be received.

13. Intangible assets

Movement in 2020 and 2019 is as follows:

	Thousands of Euros
	Other intangible assets
Cost	
Balances at 31 December 2018	15,912
Additions	1,466
Disposals	-
Balances at 31 December 2019	17,378
Additions	1,839
Disposals	-
Balances at 31 December 2020	19,217
Accumulated depreciation	
Balances at 31 December 2018	(12,871)
Charges	(1,577)
Disposals	-
Balances at 31 December 2019	(14,448)
Charges	(1,690)
Disposals	-
Balances at 31 December 2020	(16,138)
Net intangible assets	
Balances at 31 December 2019	**2,930**
Balances at 31 December 2020	**3,079**

At 31 December 2020 and 2019 the cost of fully depreciated intangible assets for own use in service amounts to Euros 10,728 thousand and Euros 9,928 thousand, respectively.

14. Financial liabilities at amortised cost

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	2019
Deposits		
Deposits from central banks	1,008,852	366,098
Deposits from credit institutions	7,325,302	5,236,415
Deposits from other creditors	1,208,013	1,178,181
Other financial liabilities	1,386,842	51,433
Total	**10,929,009**	**6,832,127**

Details of residual maturity and the interest rate repricing matrix for the items comprising the balances in this balance sheet caption are provided under Risk Management (see note 35).

Note 24 includes information on the fair value of financial instruments included in this caption.

Deposits from central banks and from credit institutions

Details at 31 December 2020 and 2019, by nature, are as follows:

	Thousands of Euros					
	Deposits from central banks		Deposits from credit institutions		Total	
	2020	2019	2020	2019	2020	2019
Current accounts / overnight deposits	-	-	6,627,874	4,573,373	6,627,875	4,573,373
Deposits redeemable at notice	1,008,852	366,098	697,428	663,042	1,706,279	1,029,140
Repurchase agreements	-	-	-	-	-	-
Total	**1,008,852**	**366,098**	**7,325,302**	**5,236,415**	**8,334,154**	**5,602,513**

"Deposits from central banks" on the balance sheet at 31 December 2020 solely comprise time deposits taken from the European Central Bank through Banco de España. The amount recorded includes drawdowns from the European Central Bank's TLTRO III facilities, amounting to Euros 1,008,852 thousand at 31 December 2020.

On 18 February 2020 the Bank, together with 16 credit cooperatives, set up a "TLTRO Group" for targeted longer-term refinancing operations (TLTRO III), as regulated by the Decision of the ECB of 22 July 2019 (ECB/2019/21) and on the basis of the Decision of the Governing Council of the European Central Bank of 29 January 2021.

On 25 August 2020, Banco de España announced its approval for the composition of the "TLTRO Group" to be modified, and it was thus reduced to Banco Cooperativo as the lead institution and 15 credit cooperatives.

On 30 April 2020 the European Central Bank made certain modifications to the terms and conditions of the TLTRO III facilities in order to support the continued access of companies and households to bank credit in the face of the disruptions and temporary funding shortages associated with the COVID-19 pandemic. Financial institutions whose rate for eligible net loans and receivables is more than 0% in the period from 1 March 2020 to 31 March 2021 will pay an interest rate of 0.5% below the average rate on deposit facilities in the period from 24 June 2020 to 23 June 2021. The interest rate to be applied to the amount drawn down on these facilities is therefore -1%. Outside of the foregoing period, the average interest rate for deposit facilities (currently -0.5%) will apply, provided that the financing objectives are met as per the terms and conditions of the European Central Bank.

Deposits from customers

Details at 31 December 2020 and 2019, by nature, are as follows:

	Thousands of Euros	
	2020	**2019**
Current accounts / overnight deposits	946,961	887,126
Deposits redeemable at notice	6,984	7,289
Repurchase agreements	254,068	283,766
Total	**1,208,013**	**1,178,181**

Likewise, details by type of counterparty are as follows:

	Thousands of Euros	
	2020	**2019**
General governments	457,477	381,109
Other financial corporations	500,852	611,313
Non-financial corporations	153,903	107,241
Households	95,781	78,518
Total	**1,208,013**	**1,178,181**

Other financial liabilities

Details are as follows:

	Thousands of Euros	
	2020	**2019**
Obligations payable	1,835	1,664
Collateral received	1,023,223	20,740
Tax collection accounts	1,786	1,615
Special accounts	331,159	4,168
Financial guarantees	103	228
Other items	28,736	23,018
Total	**1,386,842**	**51,433**

At 31 December 2020, “Collateral received” included collateral received as security for derivative transactions, in accordance with the clearing agreements entered into with various credit institutions, amounting to Euros 995,352 thousand.

At 31 December 2020, “Special accounts” reflected unsettled balances of Euros 321,658 thousand pertaining to securities sales, which were settled at the start of 2021.

At 31 December 2020 and 2019 other includes the lease liability recognised by the Bank on 1 January 2019 based on the first-time adoption of Banco España Circular 2/2018 lease standard (see note 2 (j)). At 31 December 2020 and 2019 this item also includes mainly transitory balances relating to the offset of credit and debit cards to be settled, which were settled at the start of 2021 and 2020, respectively.

15. Other assets and liabilities

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	Other assets	
	2020	2019
Accruals	4,601	5,040
Operations in transit	1	-
Other assets	832	654
Total assets	**5,434**	**5,694**
	Other liabilities	
	2020	2018
Accruals	18,847	18,838
Operations in transit	-	1
Other liabilities	5,995	7,351
Total liabilities	**24,842**	**26,190**

Other assets at 31 December 2020 and 2019 mainly include transitory balances relating to the offset of credit and debit cards to be settled, which were settled at the start of 2021 and 2020, respectively.

Other liabilities mainly include balances payable to suppliers at 31 December 2020 and 2019.

16. Hedging derivatives

At 31 December 2020 and 2019, the Bank's main hedged positions and the derivatives designated to hedge those positions were as follows:

- Fair value hedges: Fixed-rate debt securities recorded in the financial assets portfolio at fair value with changes in other comprehensive income available for sale. The risk is hedged with interest rate derivatives (fixed-for-floating swap).

- Cash flow hedges: Hedged assets are inflation-indexed assets recorded in the financial assets portfolio at fair value with changes in other comprehensive income. This risk is hedged with inflation swaps and interest rate swaps.

Details, by product and market type, of the fair value and notional amount of the hedging derivatives recognised on the accompanying balance sheets are as follows:

	Thousands of Euros					
	2020		2019		Notional amount	
	Assets	Liabilities	Assets	Liabilities	2020	2019
Interest rate	161	435,412	7	298,365	4,746,283	2,582,283
OTC options	-	-	-	-	-	-
OTC other	161	435,412	7	298,365	4,746,283	2,582,283
Organised market options	-	-	-	-	-	-
Organised market other	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-
Foreign exchange and gold	-	-	-	-	-	-
Credit	-	-	-	-	4,406	-
Commodities	-	-	-	-	-	-
Other	-	-	-	35,960	-	260,000
Fair value hedges	**161**	**435,412**	**7**	**334,325**	**4,750,689**	**2,842,283**
Interest rate	-	5,281	-	-	42,037	-
Equity instruments	-	-	-	-	-	-
Foreign exchange and gold	-	9,382	-	5,528	36,435	22,045
Commodities	-	-	-	-	-	-
Other	-	-	-	5,823	-	20,000
Cash flow hedges	**-**	**14,663**	**-**	**11,351**	**78,472**	**42,045**
Derivatives - hedge accounting	**161**	**450,075**	**7**	**345,676**	**4,829,161**	**2,884,328**
Of which: OTC - Credit institutions	*11*	*415,124*	*7*	*238,268*	*2,900,989*	*1,736,583*
Of which: OTC - Other financial corporations	*150*	*34,951*	*-*	*107,408*	*1,928,172*	*1,147,745*

Gains or losses on hedging instruments and the hedged item attributable to the hedged risk are not significant in 2020 and 2019 and are recognised under "Gains or losses on hedge accounting, net" (see note 28).

17. Provisions

This item comprises provisions for contingent exposures and commitments. Movement during 2020 and 2019 is as follows:

	Thousands of Euros	
	2020	2019
Opening balance	**4,714**	**463**
Additions (note 31)	49	252
(-) Amounts used	-	-
(-) Unused amounts reversed during the period (note 31)	(228)	(105)
Other movements	(1,694)	4,104
Closing balance	**2,841**	**4,714**

18. Accumulated Other Comprehensive Income. (Net equity)

Accumulated other comprehensive income in the balance sheets includes the amounts, net of the related tax effect, of adjustments to the assets and liabilities recognised temporarily in equity through the statement of total changes in equity until they are realised or extinguished, whereupon they are recognised definitively in equity through the income statement.

This item reflects the net amount of unrealized changes in fair value of assets included, for the purposes of their valuation, as financial assets at fair value with changes in other comprehensive income and those derived from derivatives of cash flow hedges.

Movement during 2020 and 2019 is as follows:

	Financial assets at fair value through other comprehensive income - equity instruments	**Financial assets at fair value through other comprehensive income - debt instruments**	**Cash flow hedges**	**Total**
2019 opening balance	**(2,249)**	**(2,936)**	**(1,145)**	**(6,330)**
Effects of changes in accounting policies (see Note 1.c)	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	4,882	-	-	4,882
Net valuation gains/(losses)	-	46,309	(769)	45,540
Amounts transferred to the income statement	-	(1,824)	-	(1,824)
Income tax	(1,465)	(13,346)	231	(14,580)
2019 closing balance	**1,168**	**28,203**	**(1,683)**	**27,688**
Effects of changes in accounting policies (see Note 1.c)	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(2,013)	-	-	(2,013)
Net valuation gains/(losses)	-	(26,881)	1,143	(25,738)
Amounts transferred to the income statement	-	(47)	-	(47)
Income tax	604	8,078	(343)	8,339
2020 closing balance	**(241)**	**9,353**	**(883)**	**8,229**

19. Share Capital and Share Premium

19.1 Share Capital

At their Ordinary General Meeting held on 20 June 2019 the Bank's Shareholders agreed to increase capital with a charge to voluntary reserves, with an option for the Bank to acquire the free assignment rights (scrip dividend), with the Board of Directors being delegated to take all the necessary measures for its implementation and formalisation.

On 2 October 2019 capital was I ncreased by 103,550 shares of Euros 60.10 par value. This increase was executed in a public deed and charged to voluntary reserves and with express provision of possibility of incomplete subscription. Consequently, at 31 December 2020 share capital represented 2,030,520 shares, fully subscribed and paid.

At their ordinary general meeting held on 7 May 2020 the Bank's shareholders agreed to increase capital with a charge to voluntary reserves, with an option for the Bank to acquire the free assignment rights (scrip dividend), and the board of directors being delegated to take all the necessary measures for its implementation and formalisation.

On 2 June 2020 capital was increased by 121,188 shares of Euros 60.10 par value. This increase was executed in a public deed and charged to voluntary reserves. Consequently, at 31 December 2020 share capital represented 2,151,708 shares, subscribed and fully paid.

Shareholders holding more than 10% of share capital at 31 December 2020 and 2019 are as follows:

	% ownership	
Entity	**2020**	**2019**
Gucajrural Inversiones, S.L.	87.946	84.700
DZ Bank AG	12.024	12.024

On 29 December 2017, the member Savings Banks of the Spanish Association of Rural Savings Banks, and which are Shareholders of the Bank, entered into a Framework Agreement encompassing the following agreements (see Note 1. k)):

– The shares held by the Savings Banks in Banco Cooperativo and RGA Seguros General Rural, S.A. de Seguro y Reaseguros (hereinafter RGA) were to be grouped in Grucajrural Inversiones, S.L. (hereinafter Grucajrural), a vehicle set up by the Association, as the founding partner, on 1 December 2017. This grouping was to follow the 29 Savings Banks' acquisition of the equity investments in Grucajrural held by the Association as founding partner, and the subsequent transfer to this company, as a non-monetary contribution, of the shares held by the 29 Savings Banks in BCE and RGA, thereby increasing its capital, with newly issued equity investments in Grucajrural being delivered to the contributing Savings Banks.

  At their General Meeting held on 29 December 2017, the Shareholders of Grucajrural agreed to the aforementioned capital increase through a non-monetary contribution.

On 23 February 2018 the European Central Bank and the Spanish National Securities Market Commission notified of its decision not to oppose the transfer of the shares to Grupcajrural in the capital increase, which was executed in a public deed on 9 March 2018.

The Bank held no own shares at 31 December 2020 and 31 December 2019.

19.2 Share Premium

This item reflects the amount disbursed by the Shareholders over the par value of the shares when subscribing the share capital. At 31 December 2020 and 2019 the share premium amounts to Euros 85,972 thousand.

20. Retained Earnings, revaluation and other reserves

Details of these items at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Legal reserve	24,407	23,162
Capitalisation and revaluation reserve	22,829	19,753
Other reserves	280,077	260,994
	327,313	**303,909**

Movement

Details of changes in this item in 2020 and 2019 are shown in the Bank's statement of total changes in equity for those years.

Legal reserve

Under the Revised Spanish Companies Act, entities must transfer 10% of profit for each year to their legal reserve until such reserve reaches an amount equal to 20% of the share capital of the entity. The legal reserve can be used to increase share capital provided that the remaining reserve balance 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 2020 and 2019, the Bank has appropriated to this reserve an amount of 24,407 and 23,162 thousand euros, respectively.

21. Taxation

Tax Assets and Liabilities

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	Current		Deferred	
	2020	**2019**	**2020**	**2019**
Tax assets				
Temporary differences	-	-	39,097	29,886
Value added tax	269	177	-	-
Other items	2,618	522	-	-
Total	**2,887**	**699**	**39,097**	**29,886**
Tax liabilities				
Temporary differences	-	-	19,578	22,082
Income tax	-	-	-	-
Value added tax	752	583	-	-
Total	**752**	**583**	**19,578**	**22,082**

The balance of tax assets reflects the amounts to be recovered within the next 12 months ("Tax assets-current") and the tax to be recovered in future years, including amounts arising from unused tax credits and deductions ("Tax assets - deferred"). Tax liabilities include all tax liabilities, which are broken down between current and deferred.

Royal Decree-Law 14/2013 on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions introduced certain measures aimed at allowing for some deferred tax assets to continue to be classed as capital, in line with legislation in force in other European Union member states. These include Law 27/2014 of 27 November 2014 (for 2015 and subsequent years), which establishes a regime aimed at allowing for certain deferred tax assets to continue to be classed as prudential capital within the global regulatory framework for more resilient banks and banking systems (the Basel III Accord), pursuant to the implementing legislation of this Accord, i.e. Regulation (EU) No 575/2013 and Directive 2013/36/EU, both dated 26 June 2013 (hereinafter CRD IV).

The regulations on prudential requirements provide that deferred tax assets the use of which is contingent upon obtaining future profits should be deducted from regulatory capital, although consideration must be given to whether they are derived from tax losses and deductions or from temporary differences. Deferred tax assets arising from temporary differences, including those derived from loan losses, foreclosures, obligations for pensions and early retirement, are not considered to be contingent upon obtaining future profits, as under certain circumstances they may be converted into receivables from the taxation authorities and, therefore, they are not deducted from regulatory capital (hereinafter monetisable tax assets).

The regulations on monetisable tax assets generated prior to 2016 were completed in 2015 through the introduction of a financial contribution that could entail an annual payment of 1.5% to retain the right to monetise. This 1.5% financial contribution will be applied to the amount of monetisable tax assets generated between 2008 and 2015 that exceeds the aggregate amount of income tax payable for 2008 to 2015.

The Bank has estimated an amount of Euros 5,282 thousand and Euros 6,541 thousand at 31 December 2020 and 2019, respectively, which could be considered receivables from the taxation authorities. If the aggregate income tax payable for 2008 to 2015 exceeds the amount of monetisable tax assets, the Bank will not be required to pay the 1.5% financial contribution in order for the tax assets to be considered monetisable as provided for in articles 11.12, 130, additional provision 13 and transitional provision 33 of Income Tax Law 27/2014.

For these purposes, deferred tax assets and liabilities at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	Assets		**Liabilities**	
	2020	**2019**	**2020**	**2019**
Temporary differences				
Pension obligations	400	406	-	-
Impairment losses on bad debts	4,882	6,135	-	-
	12,275	13,170	40	40
Temporary differences recognised under Equity - Financial instruments	21,540	10,175	19,538	22,042
Unused tax deductions	-	-	-	-
Tax loss carry forwards	-	-	-	-
Total tax assets/liabilities	**39,097**	**29,886**	**19,578**	**22,082**

Movement in deferred tax assets and liabilities in 2020 and 2019 is as follows:

	Thousands of Euros	
	Assets	**Liabilities**
Balance at 31 December 2018	**34,281**	**10,642**
Additions	1,662	12,898
Disposals	(6,057)	(1,458)
Balance at 31 December 2019	**29,886**	**22,082**
Additions	13,314	6,018
Disposals	(4,103)	(8,522)
Balance at 31 December 2020	**39,097**	**19,578**

Additions of deferred tax assets mainly include non-deductible charges to cover pension obligations, portfolio impairment, asset valuation adjustments, the tax effect due to the fall in value of the portfolio at fair value against equity and other non-deductible provisions.

Deferred tax assets derecognised reflect the reversal of non-deductible provisions for bad debts and pension obligations, the reversal of amortisation/depreciation considered non-deductible for tax purposes, the reversal of impairment, the reversal of asset valuation adjustments, other non-deductible provisions and income that is not eligible for tax purposes deriving from prepaid fees and commissions.

Additions to deferred tax liabilities mainly reflect the tax effect of increases in the value of liabilities at fair value through equity. Disposals are essentially the tax effect of decreases in the value of liabilities at fair value through equity.

As indicated in note 2, the Bank recognises deferred tax assets inasmuch as their future recovery is deemed probable based on existing forecasts of future taxable profits. Following an analysis of the likelihood that taxable profits will be generated in the future against which deferred tax assets can be utilised, based on the business plan for the coming years the Bank's Directors envisage the generation of taxable profit against which to offset these assets.

Income tax

Profits, determined in accordance with tax legislation, are subject to tax at a rate of 30%, pursuant to Income Tax Law 27/2014 and the Revised Income Tax Law previously in force which may be reduced by certain credits.

A reconciliation of accounting profit for 2020 and 2019 with the taxable income that the Bank expects to declare after approval of the annual accounts is as follows:

	Thousands of Euros	
	2020	**2019**
Accounting profit for the year before tax	54,838	43,822
Permanent differences		
Donations and non-deductible expenses	40	37
Exemption for double taxation on dividends	(8,833)	(58)
Capitalisation reserve	(4,043)	(4,355)
Taxable accounting income	42,002	39,446
Temporary differences		
Provision for bad debts and pension obligations	(4,196)	(5,424)
Reversal of adjustments, first-time adoption Circular 4/2017	481	481
Portfolio impairment, amortisation/depreciation and other	(1,179)	(243)
Valuation adjustments	(1,376)	-
Other adjustments to the tax base with no effect on the income tax expense	(1,477)	(509)
Taxable income	34,255	34,768
Tax at 30%	10,277	10,430
Withholdings and payments on account	(12,787)	(10,872)
Deductions and credits with effect on the income tax expense	(104)	(108)
Other deductions with no effect on the income tax expense	-	-
Recoverable income tax	**(2,614)**	**(550)**

Permanent differences in taxable income reflect expenses for:

- Donations to non-profit entities and non-deductible penalties.

- Exemption for double taxation on dividends of entities in which the share in their capital is higher than 5%, under the terms of article 31 of Income Tax Law 27/2014.

- Reduction in the tax base for amounts taken to the capitalisation reserve pursuant to article 25 of the Income Tax Law, as a result of the increase in the Shareholders' equity in 2020 due to the distribution of 2019 profit approved by the Shareholders at their General Meeting on 7 May 2020. Equity increased by Euros 30,764 thousand in 2020, whereby within the limit of the 10% increase in equity, taxable income would be reduced by an amount of up to Euros 3,076 thousand. In 2020, 4,043 thousand euros were reduced by applying the reduction generated in 2020 and 967 thousand euros pending application from previous years. Likewise, as of December 31, 2020, there were no amounts pending application corresponding to previous years.

Temporary differences primarily include the reversal of tax adjustments to the provision for standard-risk loans and loans that are under special monitoring, deriving from application of Banco de España Circular 4/2017, the reversal of the accrual of fees and commissions on first-time adoption of Circular 4/2004, the net effect of including deferred assets and liabilities deriving from first-time adoption of Circular 4/2017 in 2018, those deriving from pension obligations, adjustments and reversals of portfolio impairment adjustments, reversal of adjustments derived from the limit on the tax deductibility of amortisation and depreciation expenses in 2013 and 2014, and the partial reversal in 2018 of the asset valuation adjustment resulting from the tax assessment issued on 4 November 2015, and other non-tax deductible provisions.

Other adjustments to the base include the amount of 1,477 thousand for the inclusion in taxable income of the amount charged to reserves, deriving from the transfer of financial assets at fair value with changes in other comprehensive income, under the terms of article 17.1 of Income Tax Law 27/2014.

The reductions in income tax payable having an effect on the income tax expense are due to deductions for international double taxation and donations to non-profit entities.

The income tax expense for 2020 and 2019 is calculated as follows:

	Thousands of Euros	
	2020	**2019**
Income tax expense for the year:		
Taxable accounting income at 30%	12,601	11,834
Credits and deductions	(104)	(108)
Prior years' tax adjustments	(23)	(14)
Income tax expense	**12,474**	**11,712**
Foreign tax expense	99	101
Total	**12,573**	**11,813**

Prior years' tax adjustments reflect differences between accounting balances recorded at 31 December each year and the tax returns filed, owing to adjustments.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2020 the Bank has open to inspection by the taxation authorities all the main applicable taxes since 2016, inclusive.

As a result of an inspection carried out by the Madrid taxation authorities' Delegation for Large Taxpayers on one of the Economic Interest Groupings (EIG) in which the Bank has participated, partial inspections were carried out on the Bank's income tax declaration for 2014, with regard to tax impacts that the aforementioned investment had in that year. These inspections ended in 2020 in the minutes, which were appealed in reinstatement, the Bank's allegations being partially upheld. Against the final Act, an Economic-Administrative Claim was filed in respect of which, in the opinion of the Entity's tax advisers, the arguments raised should finally succeed. The amount of the instalment of the Act was fully paid, so as of December 31, 2020, there were no pending amounts for this concept.

Due to the various possible interpretations of the tax regulations applicable to the operations performed by the Bank, certain contingent tax liabilities could arise for the years pending inspection that cannot be objectively quantified. However, the Bank's Directors consider that the likelihood of these contingent liabilities materialising as a result of a future inspection is remote and that, in any case, the tax debt which could be incurred as a result would not significantly affect these annual accounts.

The different tax benefits applied in the calculation of income tax payable of Banco Cooperativo Español, S.A. for 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Tax relief		
Deductions for international double taxation	99	101
Deduction for donations	5	7
Total	**104**	**108**

Independently of income tax recognised in the income statement, the Bank has recognised taxes relating to valuation adjustments to available-for-sale financial assets directly in equity, until these assets are sold. Tax assets in this respect amount to Euros 21,540 thousand and Euros 10,175 thousand at the 2020 and 2019 reporting dates, respectively. Tax liabilities in the same respect amount to Euros 19,538 thousand and Euros 22,042 thousand at the 2020 and 2019 reporting dates, respectively.

As a result of the first-time adoption of Banco de España Circular 4/2017, on the basis of transitional provision 39 of Income Tax Law 27/2014, the Bank must include in 2020 the following amounts corresponding to credit and charges to reserves with the consideration of expense or income for tax purposes:

	Thousands of euros
	2020
Charges to reserves	865
Credits to reserves	(384)

22. Commitments and guarantees given

Off-balance-sheet items comprise rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by the Bank although they may not impinge on their net assets.

Details at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Contingent commitments given	**770,154**	**707,240**
Central banks	-	-
General governments	650,000	613,729
Credit institutions	5,820	106
Other financial corporations	6,402	4,159
Non-financial corporations	97,769	83,475
Households	10,163	5,771
Financial guarantees given	**13,097**	**24,240**
Central banks	-	-
General governments	-	-
Credit institutions	7,639	11,538
Other financial corporations	-	-
Non-financial corporations	4,458	12,684
Households	1,000	18
Other commitments given	**158,297**	**167,046**
Central banks	-	-
General governments	2,832	2,589
Credit institutions	76,287	84,758
Other financial corporations	125	7,161
Non-financial corporations	75,049	68,093
Households	4,004	4,445

A significant part of these amounts will expire without generating any obligations for the Bank, and therefore the total balance of these commitments cannot be considered a requirement for future financing or cash to be extended to third parties.

This item includes transactions under which the Bank guarantees the obligations of a third party and which result from financial guarantees granted by the Bank or from other types of contract. This item also includes amounts payable by the Bank on behalf of third parties as a result of the commitments undertaken in the ordinary course of business, if the parties that are originally liable to pay fail to do so.

Income from guarantee instruments is recognised under Fee and commission income in the income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee (see note 27).

23. Off-Balance sheet funds under management

Details of off-balance sheet funds managed by the Banco Cooperativo Español, S.A. Group at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Investment companies and mutual funds	5,078,073	5,053,090
Customer portfolios managed on a discretionary basis	1,186,147	1,324,544
Total	**6,264,220**	**6,377,634**

24. Assets and Liabilities (financial and non-financial): Fair Value

a) Fair value of financial assets and financial liabilities

At 31 December 2020 and 2019 the fair value of the Bank's financial instruments measured at fair value, by type of financial asset and financial liability and level, is as follows:

- Level 1: Financial instruments with fair value based on their quoted price in active markets, without making any modifications to these assets.

- Level 2: Financial instruments with fair value estimated on the basis of their quoted price in organised markets for similar instruments or through other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level 3: Instruments with fair value estimated through valuation techniques in which certain significant input is not based on observable market data.

Input is considered significant if it is important in determining the fair value as a whole.

	2020					
Financial assets	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Derivatives - hedge accounting**	**Total**
Level 1:						
Equity instruments	2,888	-	-	34,826	-	37,715
Debt securities	66,650	-	529,057	1,510,062	-	2,105,768
Level 2:						
Derivatives	1,266,027	-	-	-	161	1,266,189
Equity instruments		-	-	440	-	440
Debt securities	20,876	-	-	23,434	-	44,310
Level 3:						
Derivatives	5,610	-	-	-	-	5,610
Equity instruments	265	-	-	7,330	-	7,595
Debt securities	-	2,068	-	1,405	-	3,472
Loans and advances	-	7,747	-	-	-	7,747
	1,362,316	**9,815**	**529,057**	**1,577,497**	**161**	**3,478,846**

	2019					
Financial assets	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Derivatives - hedge accounting**	**Total**
Level 1:						
Equity instruments	2,993	-	-	30,945	-	33,938
Debt securities	46,700	-	107,696	2,258,945	-	2,413,341
Level 2:						
Derivatives	912,553	-	-	-	7	912,560
Equity instruments	-	-	-	93	-	93
Debt securities	4,029	-	-	28,332	-	32,361
Level 3:						
Derivatives	25,104	-	-	-	-	25,104
Equity instruments	265	-	-	8,969	-	9,234
Debt securities	2,631	2,068	-	2,645	-	7,344
Loans and advances	-	10,830	-	-	-	10,830
	994,275	**12,898**	**107,696**	**2,329,929**	**7**	**3,444,805**

The fair value and carrying amounts of financial assets carried at amortised cost at 31 December 2020 and 2019 are as follows:

	2020		**2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets at amortised cost				
Debt securities	2,446,446	2,525,055	1,173,045	1,230,930
Loans and advances				
Credit institutions	2,770,731	2,773,598	1,547,843	1,539,928
Other customers	1,468,178	1,537,729	1,346,906	1,420,100
Total	**6,685,355**	**6,836,382**	**4,067,794**	**4,190,958**

	2020			
Financial liabilities	**Financial liabilities held for trading**	**Financial liabilities designated at fair value through profit or loss**	**Derivatives - hedge accounting**	**Total**
Level 2:				
Derivatives	1,467,864	-	450,075	1,917,939
Deposits	-	-	-	-
Level 3:				
Derivatives	14,371	-	-	14,371
	1,482,235	**-**	**450,075**	**1,932,310**

	2019			
Financial liabilities	**Financial liabilities held for trading**	**Financial liabilities designated at fair value through profit or loss**	**Derivatives - hedge accounting**	**Total**
Level 2:				
Derivatives	1,293,899	-	345,676	1,639,575
Deposits	-	-	-	-
Level 3:	-	-	-	-
Derivatives	25,121	-	-	25,121
	1,319,020	**-**	**345,676**	**1,664,696**

The fair value and carrying amounts of financial liabilities carried at amortised cost at 31 December 2020 and 2019 are as follows:

	2020		2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities at amortised cost				
Deposits				
Central banks and credit institutions	8,334,154	8,334,094	5,602,513	5,602,203
Other customers	1,208,013	1,210,372	1,178,181	1,232,435
Total	**9,542,167**	**9,544,466**	**6,780,694**	**6,834,638**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, it is a market-based measurement, not an entity-specific measurement.

All financial instruments, whether assets or liabilities, are initially recognised at fair value which, at that point, is the same as the transaction price, unless there is evidence to the contrary in an active market. Depending on the nature of the financial instrument, it may subsequently continue to be recognised at amortised cost or fair value through profit or loss or equity.

Insofar as possible, the fair value is determined as the market price of the financial instrument. However, for certain financial assets and liabilities, particularly derivatives, no market price is available. In such cases, the fair value must be estimated based on recent transactions involving similar instruments or, in the absence thereof, using proven mathematical valuation models in the international financial community. These models take into consideration the specific features of the asset or liability to be measured and, particularly, the various types of associated risk. However, the inherent limitations of the valuation techniques used and possible inaccuracies in the assumptions and parameters required by these models may result in a fair value of a financial asset or liability that does not exactly match the price at which the asset could be delivered or the liability settled at the measurement date.

The methodology used to calculate the fair value of each class of financial asset and financial liability is as follows:

Trading derivatives and hedging derivatives

- The fair value of a financial derivative traded on an organised, transparent and deep market 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., specifically:

  - Interest rate derivatives: for financial instruments besides options, primarily swaps, the fair value has been determined by discounting future cash flows using implicit money market curves and the swap curve, while in the case of interest rate options it has been determined using generally accepted valuation techniques based on Black-Scholes and implied volatility matrices.

  - Derivatives on equity instruments or stock market indices and currency derivatives: the fair value is determined using the Monte Carlo method, which consists of random sampling of underlying inputs, taking into account their probability distribution. The factors used in the simulation are: price of underlying asset, currency interest rates, currency exchange rates, dividends paid out by the underlying asset, its volatility and the level of correlation.

- Credit Valuation Adjustments (hereinafter "CVA") and Debit Valuation Adjustments (hereinafter "DVA") are included in the measurement of both asset and liability derivative products to reflect the impact on fair value of counterparty credit risk and the Group's own risk, respectively.

  The adjustments to be performed are calculated by estimating exposure at default, the probability of default and loss given default for all derivative products with any underlying, by legal entity (i.e. all counterparties under the same ISDA/CMOF contract) to which Banco Cooperativo Español is exposed.

  In general, the CVA is calculated by multiplying expected positive exposure by the counterparty's probability of default. The DVA is calculated by multiplying the expected negative exposure by the probability of default, then multiplying the result by the Bank's loss given default. Both calculations encompass the entire duration of the potential exposure.

  The information required to calculate the probability of default and the loss given default is obtained from credit markets (Credit Default Swaps or iTraxx indices), applying the Bank's own information if available. If information is not available, a process based on sector, rating and location is applied to assign both probabilities of insolvency and expected losses in the event of insolvency, calibrated directly to market or through the adjustment to market of the probabilities of insolvency and historical expected losses.

At 31 December 2020 and 2019 the Bank held positions in OTC derivatives, primarily interest rate swaps, equity options and securities swaps, mainly as a result of services provided to rural savings banks involving intermediation between the banks and market counterparties and asset securitisation funds (back-to-back operations). These instruments do not offer predetermined cash flows, but rather their cash flows depend upon the performance of certain market risk factors (interest rates, exchange rates, share prices, etc.) leading to changes in their fair value which could, at any time, fluctuate between a positive value (exposure to counterparty risk) or a negative value (exposure to own credit risk).

According to the Bank's calculations, the net impact of the measurement of credit risk positions under assets (“Credit Valuation Adjustment” - CVA) and liabilities (“Debt Valuation Adjustment” - DVA), is net income of Euros 1,376 thousand (Euros 2,194 thousand in 2019), which has been recognised under “Gains or losses on financial assets and liabilities designated at fair value held for trading” in the accompanying income statement.

Debt securities

- Quoted debt instruments: the fair value of these instruments has been determined on the basis of the quoted price in official markets, or using the prices obtained from information service providers, primarily Bloomberg, Reuters and Iberclear, based on the prices notified to these agencies by contributors.

- Unquoted debt instruments: the fair value of these instruments has been determined in the same way as the value of loans and receivables.

Equity instruments

- Quoted equity instruments: the fair value of these instruments has been determined taking into account the quoted price on official markets.

- Unquoted equity instruments: the fair value of these instruments has been determined taking into consideration independent expert valuations based, amongst other factors, on the following:

  – Discounted cash flows (operating free cash flow or dividends), brought up to date using a discount rate associated with the operational and financial risk of each investee, calculated on the basis of the risk-free rate, including a market-adjusted risk premium.

  – Multiples of comparable listed companies (EV/EBITDA, PER, price-to-book ratio, Price/Premium), less an illiquidity discount.

  – Adjusted net asset value (NAV): obtained by adding gains, calculated as the difference between the assets' market value and their carrying amount, to Shareholders' equity as per the accounts. In the case of venture capital firms, the NAV has been calculated by the management company, and the estimate generally takes into account European Private Equity and Venture Capital Association (EVCA) standards and the provisions of Spanish National Securities Market Commission (CNMV) Circular 5/2000 of 19 September 2000.

  – The price obtained through market transactions conducted or purchase offers received at a time close to the valuation date.

Loans and advances - Loans to customers

The fair value of these instruments has been obtained by applying the discounted cash flow model, using interest rates based on directly or indirectly observable market data when calculating the discount rate, and inputs that are not observable in the market, such as credit risk associated with the portfolio, when estimating future cash flows.

Financial liabilities at amortised cost

The fair value of these liabilities has been obtained by applying the discounted cash flow model, using interest rates based on directly or indirectly observable market data.

25. Interest Margin

This item comprises the interest accrued in the year on all financial assets and liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value. Interest income is recognised gross, without deducting any tax withheld at source.

a) Interest and other similar income

Details of the source of interest income recognised in the accompanying income statements during 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Deposits to other non-financial corporations	42,484	35,809
Loans and advances to general governments	789	558
Loans and advances to credit institutions	2,706	3,025
Loans and advances to other financial corporations	643	713
Loans and advances to non-financial corporations	3,936	4,781
Loans and advances to households	2,013	1,839
Debt securities	29,342	20,577
Rectification of income originating from hedge accounting	2,166	13,095
Other interest	10,959	8,276
	95,038	**88,670**
Of which:		
Financial assets at fair value through other comprehensive income	*9,482*	*8,869*
Financial assets at amortised cost	*29,500*	*21,832*
Derivatives - hedge accounting	*2,166*	*13,095*
Other assets	*53,890*	*44,874*

Other interest during 2020 and 2019 mainly includes interest from simultaneous transactions.

b) Interest expenses

Details in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Deposits from central banks	6	8
Deposits from general governments	9,480	8,919
Deposits from credit institutions	2	-
Deposits from other financial corporations	2	10
Deposits from non-financial corporations	21	16
Deposits from households	7,538	7,419
Other financial liabilities	-	40
Debt securities	19,299	17,409
Rectification of costs originating from hedge accounting	(2,150)	(1,053)
Other interest	7,167	5,870
	41,365	**38,638**

Other interest during 2020 and 2019 mainly includes interest from simultaneous transactions.

26. Dividends Income

This item reflects the dividends and remuneration from equity instruments deriving from profits generated by investees after the acquisition of the equity interest.

Details in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Financial assets held for trading	593	388
Financial assets designated at fair value through profit or loss	1,249	1,182
Investments in subsidiaries, joint ventures and associates consolidated using methods other than the equity method	8,592	-
	10,434	**1,570**

27. Fee and Commission Income and Expenses

This item comprises the amount of all fees and commissions accrued in the year, except those forming an integral part of the effective interest rate on financial instruments.

Details of Fee and Commission Income in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Securities	310	340
Asset management	11,927	11,545
Custody	7,557	7,479
Payment services	2,612	2,439
Customer resources distributed but not managed	385	395
Loan commitments given	335	109
Financial guarantees given	54	59
Loans granted	121	124
Foreign exchange	424	464
Other	4,252	4,562
	27,977	**27,516**

Details of Fee and Commission Expenses in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Commissions assigned to other entities and correspondents	13,993	12,488
Commissions paid for securities transactions	3,213	3,011
Others	45	39
	17,251	**15,538**

28. Gains (losses) on financial assets and liabilities and exchange gains (losses)

This item includes valuation adjustments to financial instruments, except those attributable to interest accrued as a result of applying the effective interest method and to impairment of assets recognised in the income statement, as well as gains or losses on the sale and purchase of financial instruments.

Details of this item for 2020 and 2019 by type of instrument are as follows:

	Thousands of Euros	
	2020	**2019**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	45	1,791
Gains or losses on financial assets and liabilities held for trading, net	8,890	5,237
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(3,227)	(3,921)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	-	2
Gains or losses on hedge accounting, net	(34)	8
	5,674	**3,117**
Exchange gains	173	715
	5,847	**3,832**

Exchange gains include gains on the purchase and sale of foreign currencies and differences arising from the conversion of the different monetary items in the balance sheet from foreign currency to Euros.

Details for 2020 and 2019, based on the nature of the financial instruments giving rise to these balances, excluding exchange gains/losses, are as follows:

	Thousands of Euros	
	2020	**2019**
Debt securities	(10,539)	8,246
Equity instruments	(104)	(78)
Loans and advances to other debtors	(3,369)	(3,560)
Trading derivatives and hedge accounting	19,640	(1,458)
Other	46	(33)
	5,674	**3,117**

The amount recognised under gains or losses on hedge accounting, net, reflects fair value hedges, distinguishing between hedging instruments and the hedged item. Gains and losses recognised in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Fair value changes of the hedging instrument including discontinued operations	(15,571)	(78,940)
Fair value changes of the hedged item attributable to the hedged risk	15,537	78,948
	(34)	**8**

29. Other Operating Income and Expenses

Details of other operating income in the accompanying income statements for 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Sales and income from the provision of non-financial services	3,628	3,958
Costs incorporated to assets	173	346
Other non-recurring income	14	22
Other items	1	1
	3,816	**4,327**

Details of other operating expenses in the accompanying income statements for 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Contribution to the Deposit Guarantee Fund and SRF	1,433	2,120
Contribution to the Institutional Protection Mechanism	1,500	1,500
Other items	182	309
	3,115	**3,929**

30. Administrative expenses

Personnel expenses

Personnel expenses comprise all remuneration of permanent and temporary personnel on the payroll, irrespective of their duties or activity, accrued during the year for all items, including the current service cost for pension plans.

Details for 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Salaries and wages	14,202	13,450
Social Security	3,162	2,730
Transfers to defined benefit plans	27	25
Transfers to defined contribution plans	95	87
Termination benefits	9	33
Other personnel expenses	163	203
	17,658	**16,528**

The Group's average headcount, distributed by professional category and type of contract, during 2020 and 2019, as well as that existing at the related reporting dates, is as follows:

	2020			**2019**		
	Male	**Female**	**Average**	**Male**	**Female**	**Average**
Management team	12	1	13	12	1	13
Directors	18	9	27	17	9	26
Department managers	11	15	27	14	12	26
Technicians	49	67	114	46	62	105
Administrative staff	23	29	50	23	37	56
	113	121	231	112	121	226
By type of contract						
Indefinite	113	120	229	109	120	222
Temporary	-	1	2	3	1	4
	113	121	231	112	121	226

At 31 December 2020 and 2019, four Bank employees had a disability.

Other administrative expenses

Details for 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Property, fixtures and materials	465	602
Information technology	2,453	2,241
Communications	1,698	1,464
Advertising and publicity	9	10
Legal and lawyer expenses	193	287
Technical reports	963	921
Security and armoured cash transport services	251	243
Insurance premiums	256	260
Governing and control bodies	168	208
Entertainment and staff travel expenses	78	302
Association membership fees	352	315
Outsourced administrative services	1,282	1,267
Contributions and taxes	591	513
Other	256	171
	9,015	**8,804**

KPMG Auditores S.L., the auditors of the Bank's individual annual accounts, have invoiced fees and expenses for professional services during the years ended 31 December 2020 and 2019, as follows:

	Thousands of Euros	
	2020	**2019**
Audit services	33	52
Other assurance services	23	24
	56	**76**

The amounts detailed in the above table include the total fees for the 2020 and 2019 audits, irrespective of the invoice date.

Other assurance services provided to the Bank by KPMG Auditores, S.L. during the year ended 31 December 2020 comprise the following:

- Report on the protection of customer assets

- Report on agreed procedures on credit rights provided as collateral in favor of the Bank of Spain.

- Translation services of annual accounts formulated on audited.

Other companies forming part of the KPMG Group invoiced the Bank the following fees and expenses for professional services during the years ended 31 December 2020 and 2019:

	Thousands of Euros	
	2020	**2019**
Other services	24	127

31. Provisions or reversals of provisions

In 2020 and 2019 net charges to this item of the income statements were:

	Thousands of Euros	
	2020	**2019**
Commitments and guarantees given (note 17)	179	(147)
Other provisions	-	(19)
	179	**(166)**

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

Impairment of financial assets, disclosed by nature, for 2020 and 2019, recognised in the accompanying income statements is as follows:

	Thousands of Euros	
	2020	**2019**
Financial assets designated at fair value through other comprehensive income	(206)	(210)
Financial assets at amortised cost	2,965	4,538
	2,759	**4,328**

33. Related party transactions

In addition to the information provided in note 4 on remuneration received, details of balances in the balance sheet at 31 December 2020 and 2019 and in the income statements for 2020 and 2019, originating from transactions with related parties are as follows:

	Thousands of Euros					
	Subsidiaries		Senior Management personnel		Other related parties	
Assets	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Loans and advances to customers	176,429	98,976	-	1,037	20,916	86,593
Derivatives	-	-	-		33,712	27,709
Other assets	-	-	-		-	
Liabilities						
Deposits from customers	2,304	7,651	2,059	1,852	109,970	206,776
Derivatives	-	-	-	-	7,344	7,037
Other						
Guarantees given	73	70	-	-	-	-
Contingent commitments given	3,442	2,798	188	256	6,091	1,796
Profit and loss						
Interest income	162	225	1	1	1	598
Interest expenses	-	-	1	-	-	-
Dividends Income	8,592	-	-	-	-	-
Fee and commission income	1,903	2,465	-	-	-	94
Administrative Expenses	1,009	1,002	-	-	-	-

34. Customer service department

In accordance with Article 17 of Ministry of Economy Order ECO/734/2004 of 11 March 2004 on customer service departments and the financial institution ombudsman, the 2020 Annual Report presented by the head of the service to the Board of Directors at their meeting held on 27 January 2021.

During 2020 the Customer Service Department received 23 complaints, 19 of which were admitted. From the total number of complaints admitted, 16 were resolved in 2020 (of which nine were resolved in favour of the customer and 4 in favour of the Bank) and three have been resolved in 2021. Only one of the complaints received have been lodged by a legal entity.

During 2019 the Customer Service Department received 25 complaints, 20 of which were admitted. From the total number of complaints admitted, 19 were resolved in 2019 (of which three were resolved in favour of the customer and 16 in favour of the Bank) and one has been resolved in 2020. Only three of the complaints received have been lodged by a legal entity.

Details of complaints received are as follows:

	Number	
	2020	**2019**
Loans	16	17
Deposits	-	-
Other banking products	5	4
Investment services	1	2
Collection and payment services	-	1
Other	1	1
	23	**25**

The number of complaints resolved during 2020, by autonomous region, is as follows:

	Number	
	2020	**2019**
Castilla y León	1	1
Comunidad Valenciana	-	1
Andalucía	-	-
Castilla La Mancha	3	-
Madrid	11	14
País Vasco	1	2
Galicia	-	1

35. Risk management

The Bank has a strategic risk framework, the purpose of which is to ensure the control and proactive management of all risks to which the Group is exposed. This framework is partly instrumented through a Risk Appetite Framework (RAF), which stipulates the quantity and diversity of risks sought and tolerated by the Bank to achieve its business objectives, while preserving a balance between risk and return.

The RAF is composed of quantitative metrics, which enable objective monitoring of risk management, and complementary qualitative aspects. Risk management and control is configured as a far-reaching set of principles, policies, procedures and advanced valuation methodologies, integrated to form an efficient decision-making structure under a risk governance framework that is compliant with the legislation in force.

For each relevant risk to which the Bank is exposed, the RAF details the main parties involved, their functions, policies, methods and procedures, as well as the monitoring and control mechanisms. It also specifies the organisation of the risk function, indicating the roles and responsibilities of the different risk departments and committees and their control systems, which are tailored to the activities of the business units, including the function of granting loans and credit.

The main financial risks to which the Bank is exposed are capital risk, excessive leverage, liquidity risk, profitability risk, operational risk, interest rate risk, credit risk, concentration risk and market risk. The most relevant of these is credit risk.

The main non-financial risks to which the Bank is exposed are operational risk, tax risk and regulatory compliance risk.

35.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees given, etc.), as well as in other types of financial assets (fixed-income securities of the Bank, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank's credit risk control policies and objectives have been approved by the Board of Directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in late payment or default, to determine the effectiveness of the hedges arranged by the Entity, in order to take any necessary measures to improve the Bank's acceptance policies and credit risk analysis mechanisms.

35.1.1 Maximum credit 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 guarantees received to ensure repayment by borrowers:

	Thousands of Euros						
	2020						
Type of instruments	**Cash, cash balances with central banks and other demand deposits**	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**
Debt instruments							
Loans and advances to central banks	3,191,528	-	-	-	-	-	3,191,528
Loans and advances to credit institutions	84,548	-	-	-	-	2,770,940	2,855,488
Loans and advances to customers	-	-	7,747	-	-	1,448,100	1,455,847
Debt securities	-	87,526	2,068	529,057	1,534,901	2,446,446	4,599,998
Total debt instruments	**3,276,076**	**87,526**	**9,815**	**529,057**	**1,534,901**	**6,665,486**	**12,102,861**
Equity instruments	**-**	**3,153**	**-**	**-**	**42,596**	**-**	**45,749**
Guarantees and commitments given							
Financial guarantees given	-	-	-	-	-	13,097	13,097
Other commitments given	-	-	-	-	-	158,297	158,297
Total guarantees and commitments given	**-**	**-**	**-**	**-**	**-**	**171,394**	**171,394**
Other exposures							
Derivatives	-	1,271,637	-	-	-	-	1,271,637
Contingent commitments given	-	-	-	-	-	770,154	770,154
Total other exposures	**-**	**1,271,637**	**-**	**-**	**-**	**770,154**	**2,041,791**
Maximum credit risk exposure level	**3,276,076**	**1,362,316**	**9,815**	**529,057**	**1,577,497**	**7,607,034**	**14,361,795**

	Thousands of Euros						
	2019						
Type of instruments	**Cash, cash balances with central banks and other demand deposits**	**Financial assets held for trading**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets designated at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Total**
Debt instruments							
Loans and advances to central banks	247,520	-	-	-	-	-	247,520
Loans and advances to credit institutions	1,310,209	-	-	-	-	1,548,080	2,858,289
Loans and advances to customers	-	-	10,830	-	-	1,369,259	1,380,089
Debt securities	-	53,360	2,068	107,696	2,289,922	1,173,044	3,626,091
Total debt instruments	**1,557,729**	**53,360**	**12,898**	**107,696**	**2,289,922**	**4,090,385**	**8,111,989**
Equity instruments	**-**	**3,258**	**-**	**-**	**40,007**	**-**	**43,265**
Guarantees and commitments given							
Financial guarantees given	-	-	-	-	-	24,240	24,240
Other commitments given	-	-	-	-	-	167,046	167,046
Total guarantees and commitments given	**-**	**-**	**-**	**-**	**-**	**191,286**	**191,286**
Other exposures							
Derivatives	-	937,657	-	-	-	-	937,657
Contingent commitments given	-	-	-	-	-	707,240	707,240
Total other exposures	**-**	**937,657**	**-**	**-**	**-**	**707,240**	**1,644,897**
Maximum credit risk exposure level	**1,557,729**	**994,275**	**12,898**	**107,696**	**2,329,929**	**4,988,910**	**9,991,437**

The following should be taken into consideration in relation to the information shown in the above tables:

- Debt instruments recognised under assets in the balance sheet are reflected at their carrying amount, excluding valuation adjustments (impairment losses, deferred interest, arrangement costs and similar commissions pending deferral, etc.).

- Contingent commitments given comprise available balances bearing no conditions for debtors.

- Guarantees given are recognised 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 Entity (see note 22).

- Information on other credit risk exposures, such as counterparty risk related to the contracting of derivative financial instruments, is stated at the carrying amount.

The shareholder Rural Savings Banks and the Bank have a “Cash Treasury Agreement” in force whereby the former transfer funds to the Bank for investment in the interbank market and financial assets. The Rural Savings Banks provide a joint guarantee for any potential losses incurred by the Bank as a result of investing the funds received.

Details of the assets related to the investment of funds received from the shareholder Rural Savings Banks, and thus secured by the latter, which amounted to Euros 1,148,996 thousand and Euros 236,430 thousand at 31 December 2020 and 2019, respectively, are as follows:

	Thousands of Euros	
	2020	2019
Cash, cash balances with central banks and other demand deposits	619,939	4,990
Financial assets designated at fair value through profit or loss - Debt securities	529,057	107,696
Financial assets at fair value through other comprehensive income - Debt securities	-	123,744
	1,148,996	**236,430**

Details of loans and advances, by counterparty and product, and net of impairment losses, classified in the different asset categories at 31 December 2020 and 2019 are as follows:

	31 December 2020					
	Central banks	**General governments**	**Credit institutions**	**Other financial corporations**	**Non-financial corporations**	**Households**
On demand, short notice (current account)	3,191,528	-	84,548	-	-	1
Credit card debt	-	-	3	12	62	498
Trade receivables	-	-	-	-	96,810	-
Finance leases	-	-	-	-	2,152	82
Reverse repurchase loans	-	-	638,404	-	-	-
Other term loans	-	385,941	595,752	34,538	412,877	111,291
Advances that are not loans	-	-	1,536,572	417,824	13,760	78
Loans and advances	**3,191,528**	**385,941**	**2,855,279**	**452,374**	**525,660**	**111,950**
Of which: loans secured by real estate collateral	-	-	-	*65*	-	*79,608*
Of which: other secured loans	-	-	*638,774*	*4,998*	-	*18,788*
Of which: consumer credit	-	-	-	-	-	*14,469*
Of which: home purchase loans	-	-	-	-	-	*79,653*
Of which: project finance loans	-	-	-	-	*1,148*	-

	31 December 2019					
	Central banks	**General governments**	**Credit institutions**	**Other financial corporations**	**Non-financial corporations**	**Households**
On demand, short notice (current account)	247,520	-	1,310,209	2,509	6	2
Credit card debt	-	-	15	7	66	558
Trade receivables	-	-	-	-	85,721	-
Finance leases	-	-	-	-	796	126
Reverse repurchase loans	-	-	1,277,762	-	-	-
Other term loans	-	363,944	240,951	34,583	295,047	117,305
Advances that are not loans	-	432	29,115	451,042	5,475	117
Loans and advances	**247,520**	**364,376**	**2,858,052**	**488,141**	**387,111**	**118,108**
Of which: loans secured by real estate collateral	-	-	-	*75*	*18,329*	*77,057*
Of which: other secured loans	-	-	*3*	-	*25,560*	*18,622*
Of which: consumer credit	-	-	-	-	-	*22,025*
Of which: home purchase loans	-	-	-	-	-	*74,064*
Of which: project finance loans	-	-	-	-	-	-

35.1.2 Credit rating of credit risk exposures

The Bank uses advanced models to measure credit risk. The credit rating of public entities, financial institutions and corporate customers is measured through rating systems, while the credit rating of the retail banking portfolio (individual customers, small companies and freelance professionals) is measured using scoring systems.

The distribution of risk at 31 December 2020 and 2019, based on ratings (external or internal, in line with the credit rating models developed by the Entity) is as follows:

	2020		2019	
Credit rating	**Thousands of Euros**	**%**	**Thousands of Euros**	**%**
AAA	3,207,026	27.3	264,401	3.4
AA+	19,525	0.2	24,614	0.3
AA	212,497	1.8	393,882	5.1
AA-	187,335	1.6	168,916	2.2
A+	1,026,954	8.7	642,678	8.3
A.	5,144,293	43.8	4,641,666	59.8
A-	190,031	1.6	185,282	2.4
BBB+	601,603	5.1	259,375	3.3
BBB	432,763	3.7	318,811	4.1
BBB-	37,033	0.3	94,357	1.2
BB+	6,357	0.1	29,591	0.4
BB	31,059	0.3	40,500	0.5
BB-	23,365	0.2	17,588	0.2
B+	14,910	0.1	4,002	0.1
B	7,086	0.1	18,087	0.2
B-	20,018	0.2	83,176	1.1
Below BB	23,123	0.2	-	-
Below B-	568,436	4.8	41,699	0.5
Not rated	2,519	0.0	534,219	6.9
Total	**11,755,933**	**100.0**	**7,762,844**	**100.0**

35.1.3 Loans and advances to customers Details by counterparty and collateral received

Details of loans and advances to other debtors by activity and type of collateral, excluding advances that are not loans, at 31 December 2020 and 2019 are as follows:

	2020							
	Thousands of Euros							
	Secured loans Loan to value							
	Total	**Of which: Real estate collateral**	**Of which: Other collateral**	**Less than or equal to 40%**	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**Loan to value More than 100%**
General governments	**385,941**	-	-	-	-	-	-	-
Other financial institutions	**34,551**	65	4,998	259	2,169	-	-	2,635
Non-financial corporations and sole proprietorships	**512,904**	20,478	16,256	20,048	7,804	714	2,458	5,710
Real estate construction and property development	**8,225**	1,257	1,461	1,257	-	-	1,461	-
Construction of civil works	**1,573**	-	702	-	-	-	-	702
Other purposes	**503,106**	19,221	14,093	18,791	7,804	714	997	5,008
Large corporations	**256,523**	6,069	6,639	6,525	1,762	83	698	3,640
SMEs and sole proprietorships	**246,583**	13,152	7,454	12,266	6,042	631	299	1,368
Other household loans	**110,867**	79,393	18,525	24,836	26,896	37,167	7,070	1,949
Housing	**79,653**	73,603	5,677	19,832	21,746	28,910	6,843	1,949
Consumer	**14,469**	-	2,074	2	1,479	593	-	-
Other purposes	**16,745**	5,790	10,774	5,002	3,671	7,664	227	-
TOTAL	**1,044,263**	**99,936**	**39,779**	**45,143**	**36,869**	**37,881**	**9,528**	**10,294**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations (net of specific provisions)	***8,741***	*2,663*	*702*	*928*	*1,734*	-	-	*703*

	2019							
	Thousands of Euros							
	Secured loans Loan to value							
	Total	**Of which: Real estate collateral**	**Of which: Other collateral**	**Less than or equal to 40%**	**More than 40% and less than or equal to 60%**	**More than 60% and less than or equal to 80%**	**More than 80% and less than or equal to 100%**	**Loan to value More than 100%**
General governments	**363,944**	-	-	-	-	-	-	-
Other financial institutions	**37,099**	71	3,171	-	2,384	468	-	390
Non-financial corporations and sole proprietorships	**384,026**	18,893	24,969	16,214	8,647	6,208	1,611	11,182
Real estate construction and property development	**35,026**	-	-	-	-	-	-	-
Construction of civil works	**31,944**	74	-	74	-	-	-	-
Other purposes	**317,056**	18,819	24,969	16,140	8,647	6,208	1,611	11,182
Large corporations	**169,293**	3,957	13,684	7,837	-	-	1,236	8,568
SMEs and sole proprietorships	**147,763**	14,862	11,285	8,303	8,647	6,208	375	2,614
Other household loans	**115,601**	76,852	18,070	21,532	25,933	33,845	10,256	3,356
Housing	**73,806**	70,810	2,888	15,665	20,221	24,882	9,574	3,356
Consumer	**21,982**	-	1,411	884	-	527	-	-
Other purposes	**19,813**	6,042	13,771	4,983	5,712	8,436	682	-
TOTAL	**900,670**	**95,816**	**46,210**	**37,746**	**36,964**	**40,521**	**11,867**	**14,928**
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations (net of specific provisions)	***4,160***	-	*3,391*	*2,688*	-	-	-	*702*

Refinancing and restructuring policy

The Bank's refinancing and restructuring policy is defined in accordance with the specifications laid down in the Banco de España regulation.

Its objective is to recover all amounts owed and it reflects the need to immediately recognise amounts deemed irrecoverable.

The transaction refinancing policy includes:

- An individual up-to-date analysis of the financial position and payment capacity of the borrowers and guarantors.
- The status and effectiveness of guarantees provided.
- Experience with the borrower: sufficiently extensive repayment history or, in the absence thereof, a repayment on the loan principal of equal value.
- Interruption of arrears. Refinancing or restructuring of transactions in arrears does not interrupt those arrears or lead to their reclassification.

The following definitions are used for the purposes of Banco de España regulations:

- Refinancing transaction: a transaction which, irrespective of the borrower or collateral/guarantees, is granted or used for economic or legal reasons relating to the borrower's/s/s' current or foreseeable financial difficulties, either to settle one or several transactions granted by the entity itself or by others in its group to the borrower/s or to one or more other companies in its/their economic group, or to bring these transactions wholly or partially up to date in payment, in order to facilitate debt payments by borrowers whose transactions are terminated or refinanced (principal and interest) because they are, or will foreseeably become, unable to comply with the terms and conditions on time and in due form.

- Refinanced transaction: a transaction which is brought wholly or partially up to date in payment as a result of a refinancing transaction carried out by the entity itself or by another entity in its economic group.

- Restructured transaction: a transaction in which, for economic or legal reasons relating to the borrower's/s/s' current or foreseeable financial difficulties, the financial terms and conditions are changed in order to facilitate payment of the debt (principal and interest) because the borrower is or will foreseeably become unable to comply with those terms and conditions on time and in due form, even if that change was envisaged in the contract. In any event, transactions are considered to be restructured when a debt reduction takes place, assets are received to reduce the debt or their terms and conditions are changed to extend their maturity, change the repayment table to reduce instalments in the short term or reduce their frequency, or establish or extend the principal repayment and/or interest grace period, except when it can be demonstrated that the terms and conditions were changed for reasons other than the borrowers' financial difficulties and are similar to those applying in the market on the date of change on transactions with borrowers of a similar risk profile.

- Novation transaction: a transaction entered into to replace another transaction previously granted by the entity in which a borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction entered into for reasons other than refinancing.

- Renegotiated transaction: a transaction in which the financial conditions are amended although the borrower does not have financial difficulties and is not expected to have them in future; thus, a transaction in which conditions are amended for reasons other than restructuring.

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

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

- 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 it, 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.

- When the entity approves the use of implicit restructuring or refinancing clauses 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.

This classification may not be changed 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.

b) That a minimum of two years has elapsed since the later of the date of entry into the restructuring or refinancing transaction or the date of reclassification from the category of doubtful 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 or the date of reclassification from the category of doubtful. Additionally, the borrower must have settled, by means of regular payments, an amount equal to all the amounts (principal and interest) that were past-due or written down at the time of the restructuring or refinancing transaction. 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 standard exposure under special monitoring until the amounts described have been repaid by means of regular payments.

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.

   Transaction restructuring or refinancing entails an up-to-date analysis of the economic and financial situation of the borrower and guarantors, of their ability to pay under the new financial conditions, and of the effectiveness of the (new and original) collateral/guarantees provided. Transactions are classified, on the basis of insolvency risk, in one of the following categories:

   - Permorfing exposure. Refinancing, refinanced or restructured transactions that do not meet the requirements to be classified in other categories.

   - Watchlist exposure. Refinancing, refinanced or restructured transactions that present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures.

When classifying transactions in this category, the following signs relating to the circumstances of the borrower will first of all be taken into account:

a) High debt levels.

b) A drop in turnover or, in general, in recurring cash flows.

c) Narrowing of operating margins or in disposable recurring income.

Additionally, the Bank analyses other signs of possible weakness relating to operations, such as:

a) A fall in the price of the main product.

b) Difficulties accessing markets or deteriorating financing conditions.

c) Significant increases in the debt-service ratio, defined as the ratio of debt to operating cash flows.

d) A slowdown in business or unfavourable trend in the borrower's operations, indicating potential weaknesses in its financial position, without yet having endangered its debt service.

e) For transactions secured with collateral, a worsening of the ratio of their amount to the value of the collateral, due to unfavourable developments in the value of the collateral, or no change or an increase in the outstanding amount due to the payment terms established (such as extended principal payment grace periods, rising or flexible instalments, extended terms).

f) Economic or market volatility that may have a negative impact on the borrower.

g) Unfavourable developments in the borrower's sector of economic activity.

h) The borrower's belonging to a group in difficulties, such as residents of a specific geographical area at sub-country level.

i) Pending legal action that may significantly affect the borrower's financial position.

j) Market trends, such as interest-rate increases or higher requirements for collateral/guarantees, affecting similar transactions causing them to deviate significantly from the conditions originally established for the transaction or group of transactions.

k) Transaction granted at below cost.

l) Amounts more than 30 days past-due in the transaction.

- Doubtful exposures as a result of borrower arrears. Refinancing, refinanced or restructured transactions, any part of whose principal, interest or contractually agreed expenses is more than 90 days past-due, unless such instruments should be classified as being written off.

  This category also includes guarantees given if the guaranteed party has fallen into arrears in the guaranteed transaction.

- Doubtful exposures for reasons other than borrower arrears. Refinancing, refinanced or restructured transactions meeting any of the following criteria:

  – 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.

  – 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.

  – They include amounts derecognised due to being irrecoverable that exceed the allowances and provisions resulting from applying the percentages established for the corresponding risk segment in the alternative solutions included in the new Annex IX of Circular 4/2017.

- Write-off. Refinancing, refinanced or restructured transactions for which the entity, after analysing them individually, considers the possibility of recovery to be remote due to manifest and irreversible deterioration of the solvency of the transaction or borrower. Classification in this category entails the writing-off of the full gross carrying amount of the transaction and its total derecognition from assets.

At 31 December 2020 the Bank's outstanding refinanced balance totals Euros 10,356 thousand (Euros 5,325 thousand at 31 December 2019). This figure includes loans classified as performing exposures and watchlist, and as non-performing exposures, representing 0.7% of total loans and advances to customers (0.4% in 2019):

	2020							
	Thousands of Euros							
	Credit institutions	**General governments**	**Other financial corporations and sole proprietorships (financial business)**	**Non-financial corporations and sole proprietorships (non-financial business)**	***Of which: financing of real estate construction and property development (including land)***	**Other household loans**	**Total**	**Additional information: financing classified as non-current assets and disposal groups held for sale**
Unsecured								
Number of transactions	-	-	-	12	-	3	**15**	-
Gross carrying amount	-	-	-	5,922	-	15	**5,937**	-
Secured								
Number of transactions	-	-	-	5	-	-	**5**	-
Gross carrying amount	-	-	-	4,419	-	-	**4,419**	-
Impairment allowances	-	-	-	(1,604)	-	(10)	**(1,614)**	-
Of which: doubtful exposures								
Unsecured								
Number of transactions	-	-	-	*8*	-	*2*	***10***	-
Gross carrying amount	-	-	-	*766*	-	*10*	***776***	-
Secured								
Number of transactions	-	-	-	-	-	-	-	-
Gross carrying amount	-	-	-	-	-	-	-	-
Specific allowance or provision	-	-	-	-	-	-	-	-
TOTAL								
Number of transactions	-	-	-	17	-	3	**20**	-
Gross carrying amount	-	-	-	10,341	-	15	**10,356**	-
Impairment allowances	-	-	-	(1,604)	-	(10)	**(1,614)**	-

	2019							
	Thousands of Euros							
	Credit institutions	**General governments**	**Other financial corporations and sole proprietorships (financial business)**	**Non-financial corporations and sole proprietorships (non-financial business)**	***Of which: financing of real estate construction and property development (including land)***	**Other household loans**	**Total**	**Additional information: financing classified as non-current assets and disposal groups held for sale**
Unsecured								
Number of transactions	-	-	-	9	-	3	**12**	-
Gross carrying amount	-	-	-	853	-	21	**874**	-
Secured								
Number of transactions	-	-	-	6	-	-	**6**	-
Gross carrying amount	-	-	-	4,451	-	-	**4,451**	-
Impairment allowances	-	-	-	(1,157)	-	(9)	**(1,166)**	-
Of which: doubtful exposures								
Unsecured								
Number of transactions	-	-	-	*1*	-	*2*	***3***	-
Gross carrying amount	-	-	-	*75*	-	*11*	***86***	-
Secured								
Number of transactions	-	-	-	-	-	-	-	-
Gross carrying amount	-	-	-	-	-	-	-	-
Specific allowance or provision	-	-	-	-	-	-	-	-
TOTAL								
Number of transactions	-	-	-	15	-	3	**18**	-
Gross carrying amount	-	-	-	5,304	-	21	**5,325**	-
Impairment allowances	-	-	-	(1,157)	-	(9)	**(1,166)**	-

35.1.4 Credit risk on real estate construction and property development

Details of financing earmarked for real estate construction and property development by category of asset at 31 December 2020 and 2019 are as follows:

	31.12.2019	**Depreciation**	**Impairment**	**31.12.2020**
Non-trading financial assets mandatorily at fair value through profit or loss	10,830	-	(3,083)	7,747
Financial assets at amortised cost	26,147	(1,596)	-	24,551
	36,977	(1,596)	**(3,083)**	**32,298**
Of which: doubtful	-	-		-

	31.12.2018	Depreciation	Impairment	31.12.2019
Non-trading financial assets mandatorily at fair value through profit or loss	14,390	-	(3,560)	10,830
Financial assets at amortised cost	29,231	(3,084)	-	26,147
	43,621	**(3,084)**	**(3,560)**	**36,977**
Of which: doubtful	-	-		-

Details of provisions for and/or impairment of loans and advances earmarked for real estate construction and property development at 31 December 2020 and 2019 are as follows:

	31.12.2019	Charges to (reversal of) provisions for the year	31.12.2020
Financial assets at amortised cost	497	(31)	466
	497	**(31)**	**466**
Of which: doubtful	-		-

The figures above reflect financing extended for real estate construction and property development. Consequently, following Banco de España instructions, the purpose of the transaction has been taken into account, rather than the debtor’s activity. Loans in this table are classified in line with their purpose and not in accordance with the National Classification of Economic Activities (CNAE) assigned to the debtor. As a result, if the debtor is: (a) a real estate company but uses the financing for a purpose other than real estate construction or property development, the loan will not be included in these tables, and (b) if the company’s principal activity is not real estate construction or development but it uses the loan to finance property development, it will be included in these tables.

Details of loans and advances to customers excluding general governments at 31 December 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	2019
Total loans and advances to customers excluding general governments	1,089,984	993,360
Total assets	13,502,429	9,122,004
Impairment and provisions for exposures classified as performing and watchlist	(18,413)	(21,116)

Details of credit risk on real estate construction and property development by type of related guarantee are as follows:

	Thousands of Euros	
	Gross amount	
	2020	2019
1. Unsecured	32,298	36,977
2. With mortgage guarantee	-	-
2.1. Finished buildings	-	-
2.1.1 Housing	-	-
2.1.2 Other	-	-
2.2. Buildings under construction	-	-
2.2.1 Housing	-	-
2.2.2 Other	-	-
2.3. Land	-	-
2.3.1 Developed land	-	-
2.3.2 Other land	-	-
Total	**32,298**	**36,977**

Details of home purchase loans extended to individuals are as follows:

	Thousands of Euros			
	2020		2019	
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
Home purchase loans	78,368	-	73,122	-
Unsecured	5,433	-	2,917	-
With mortgage guarantee	72,935	-	70,205	-

The following table shows a breakdown of mortgage loans extended to acquire homes at 31 December 2020 and 2019 by percentage of total risk on the latest available appraisal value (LTV):

	Thousands of Euros					
	2020					
	LTV bracket					
	LTV < 40%	40% < LTV < 60%	60% < LTV < 80%	80% < LTV < 100%	LTV > 100%	Total
Gross amount	16,628	20,347	27,101	7,154	1,705	72,935
Of which: doubtful	-	-	-	-	-	-

	Thousands of Euros					
	2019					
	LTV bracket					
	LTV < 40%	**40% < LTV < 60%**	**60% < LTV < 80%**	**80% < LTV < 100%**	**LTV > 100%**	**Total**
Gross amount	14,730	19,205	23,649	9,465	3,156	70,205
Of which: doubtful	-	-	-	-	-	-

The Bank has not recognised any foreclosed assets at 31 December 2020 and 2019.

35.1.5 Past-due unimpaired financial assets

Details of past-due unimpaired financial assets at 31 December 2020 and 2019, classified on the basis of the time elapsed since maturity, by nature of the financial instrument and by counterparty, are as follows:

	31.12.2020			
	Thousands of Euros			
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**Total**
Debt securities	-	-	-	-
Loans and advances				
General governments	-	-	-	-
Other financial corporations	-	-	-	-
Non-financial corporations	800	-	250	1,050
Households	2,054	2	250	2,306
Total	**2,854**	**2**	**500**	**3,356**

	31.12.2019			
	Thousands of Euros			
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**Total**
Debt securities	-	-	-	-
Loans and advances				
General governments	-	-	-	-
Other financial corporations	-	-	-	-
Non-financial corporations	4	915	148	1,067
Households	140	123	268	531
Total	**144**	**1,038**	**416**	**1,598**

35.1.6 Doubtful financial assets and impairment allowances

Details of financial assets at amortised cost, by nature of the financial instrument and by counterparty, and of impairment allowances, indicating whether these have been calculated on an individual or collective basis, are as follows:

	Thousands of Euros					
	2020					
	Gross carrying amount	***Of which: doubtful***	**Specific impairment allowances for financial assets, estimated individually**	**Specific impairment allowances for financial assets, estimated collectively**	**Collective impairment allowances for incurred but not reported losses**	**Total**
Debt securities	2,446,446	-	-	-	-	2,446,446
Loans and advances	4,257,946	*2,519*	-	(1,886)	(17,151)	4,238,909
Central banks	-	-	-	-	-	-
General governments	385,941	-	-	-	-	385,941
Credit institutions	2,770,940	-	-	-	(209)	2,770,731
Other financial corporations	453,286	-	-	-	(912)	452,374
Non-financial corporations	533,673	*921*	-	(540)	(15,220)	517,913
Households	114,106	*1,598*	-	(1,346)	(810)	111,950
Total	**6,704,392**	***2,519***	**-**	**(1,886)**	**(17,151)**	**6,685,355**

	Thousands of Euros					
	2019					
	Gross carrying amount	***Of which: doubtful***	**Specific impairment allowances for financial assets, estimated individually**	**Specific impairment allowances for financial assets, estimated collectively**	**Collective impairment allowances for incurred but not reported losses**	**Total**
Debt securities	1,173,045	-	-	-	-	1,173,045
Loans and advances	2,917,339	*1,681*	-	(1,237)	(21,353)	2,894,749
Central banks	-	-	-	-	-	-
General governments	364,376	-	-	-	-	364,376
Credit institutions	1,548,080	-	-	-	(237)	1,547,843
Other financial corporations	489,780	-	-	-	(1,639)	488,141
Non-financial corporations	394,079	*390*	-	(242)	(17,556)	376,281
Households	121,024	*1,291*	-	(995)	(1,921)	118,108
Total	**4,090,384**	***1,681***	**-**	**(1,237)**	**(21,353)**	**4,067,794**

Impaired assets are analysed periodically. The main factors considered when evaluating impairment on each asset are as follows:

a) Analysis of the financial statements

b) Analysis of the customer's income statements and payment capacity

c) Analysis of cash flow forecasts

d) Movements in customer capitalisation

e) Changes in debt

f) History and analysis of cost structure

g) Amounts of guarantees and variation therein

h) Any present or future event that could affect the customer's payment capacity

35.1.7 Movement in impairment losses

Movement in impairment losses recognised by the Bank except for the category of "Non-compulsory financial assets for negotiations mandatorily valued at fair value with changes in results" in 2020 and 2019 by type of financial asset is as follows:

	Thousands of Euros				
	2020				
	Balance at 31 December 2019	Increases (decreases) during the year due to charges for expected credit losses	Decreases for amounts applied, charged to valuation adjustments	Transfers between valuation adjustments and other adjustments	**Balance at 31 December 2020**
Specific impairment allowances for financial assets measured individually	**-**	**-**	**-**	**-**	**-**
Loans and advances	-	-	-	-	-
Specific impairment allowances for financial assets, estimated collectively	**1,237**	**641**	**(164)**	**172**	**1,886**
Loans and advances	-	-	-	-	-
	1,237	641	(164)	172	1,886
Collective impairment allowances for incurred but not reported losses on financial assets					
Debt securities	**22,368**	**8,121**	**(11,910)**	**(205)**	**18,375**
Loans and advances	1,015	208	-	-	1,223
	21,353	7,913	(11,910)	(205)	17,152
Total	**23,605**	**8,762**	**(12,074)**	**(33)**	**20,260**

	Thousands of Euros				
	2019				
	Balance at 31 December 2018	Increases (decreases) during the year due to charges for expected credit losses	Decreases for amounts applied, charged to valuation adjustments	Transfers between valuation adjustments and other adjustments	**Balance at 31 December 2019**
Specific impairment allowances for financial assets measured individually	-	-	-	-	-
Loans and advances	-	-	-	-	-
Specific impairment allowances for financial assets, estimated collectively	**1,201**	**607**	**(766)**	**195**	**1,237**
Loans and advances	37	-	(37)	-	-
	1,164	607	(729)	195	1,237
Collective impairment allowances for incurred but not reported losses on financial assets					
Debt securities	**27,985**	**988**	**(6,410)**	**(195)**	**22,368**
Loans and advances	759	256	-	-	1.015
	27,226	732	(6,410)	(195)	21,353
Total	**29,186**	**1,595**	**(7,176)**	**-**	**23,605**

35.1.8 Impaired and derecognised financial assets

Movement in 2020 and 2019 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, is as follows:

	Thousands of Euros	
	2020	**2019**
Opening balance	**11,541**	**10,277**
Charges	1,179	1,295
Application of accumulated impairment losses	145	518
Direct write-down in the income statement	1,017	745
Contractually payable interest	17	32
Derecognitions	(585)	(31)
Collection of principal from counterparties in cash	(500)	(5)
Collection of interest from counterparties in cash	(45)	(21)
Pardoning of debt	(40)	(5)
Closing balance	**12,135**	**11,541**

35.2 Liquidity risk

Liquidity risk management consists of ensuring that the Bank always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with the Bank's policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Bank continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it relies on: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined on the basis of maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Entity has a buffer of liquid assets free of encumbrances that enable it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results of applying them at 31 December 2020 are:

- *Daily liquidity controls*: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- *Liquidity gap*: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

The liquidity gap at 31 December 2020 and 2019 was as follows:

	2020							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash, cash balances with central banks and other demand deposits (note 5)	3,276,588	-	-	-	-	-	-	3,276,588
Loans to credit institutions (note 10)	-	659,375	44,084	36,324	518,317	1,512,631	-	2,770,731
Loans and advances to customers (notes 7 and 10)	-	100,219	58,877	290,002	447,010	146,964	432,851	1,475,923
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	-	103,157	48,593	660,171	1,264,857	2,523,220	-	4,599,998
Other assets	-	123,326	190,746	292,476	653,505	-	119,136	1,379,189
Total assets	**3,276,588**	**986,077**	**342,300**	**1,278,974**	**2,883,689**	**4,182,815**	**551,988**	**13,502,429**
Liabilities								
Deposits from central banks and credit institutions (note 14)	6,628,564	627,366	18,764	44,904	1,013,669	887	-	8,334,154
Deposits from customers (note 14)	627,233	575,150	1,604	2,933	1,090	2	-	1,208,013
Other liabilities	308,884	193,232	289,846	444,431	1,004,801	1,023,222	695,846	3,960,262
Total Liabilities	**7,564,681**	**1,395,748**	**310,214**	**492,268**	**2,019,560**	**1,024,112**	**695,846**	**13,502,429**
Simple gap	(4,288,093)	(409,671)	32,086	786,706	864,127	3,158,703	(143,858)	-
Accumulated gap	(4,288,093)	(4,697,764)	(4,665,679)	(3,878,972)	(3,014,846)	143,858	-	-

	2019							
	Thousands of Euros							
	Demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets								
Cash, cash balances with central banks and other demand deposits (note 5)	1,558,271	-	-	-	-	-	-	1,558,271
Loans to credit institutions (note 10)	-	1,304,213	71,716	77,927	92,874	1,113	-	1,547,843
Loans and advances to customers (notes 7 and 10)	3,162	16,529	66,111	186,693	894,004	191,237	-	1,357,736
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	-	188,799	201,809	111,954	1,107,696	2,015,833	-	3,626,091
Other assets	-	93,767	140,650	215,662	487,585	-	94,399	1,032,063
Total assets	**1,561,433**	**1,603,308**	**480,286**	**592,236**	**2,582,159**	**2,208,183**	**94,399**	**9,122,004**
Liabilities								
Deposits from central banks and credit institutions (note 14)	3,530,355	876,812	30,746	314,197	99,068	751,335	-	5,602,513
Deposits from customers (note 14)	887,416	284,379	1,199	4,165	815	207	-	1,178,181
Other liabilities	51,433	166,470	249,704	382,880	865,641	-	625,182	2,341,310
Total Liabilities	**4,469,204**	**1,327,661**	**281,649**	**701,242**	**965,524**	**751,542**	**625,182**	**9,122,004**
Simple gap	(2,907,771)	275,647	198,637	(109,006)	1,616,635	1,456,641	(530,783)	-
Accumulated gap	(2,907,771)	(2,632,124)	(2,433,487)	(2,542,493)	(925,858)	530,783	-	-

As part of its liquidity management, the Bank monitors the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the required information to the regulator on a monthly and quarterly basis, respectively.

Liquidity measurement based on these metrics forms part of the liquidity risk control system implemented by the Bank.

- *Short-term liquidity coverage ratio (LCR):* under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2020 stood at 324.78% (260.1% at 31 December 2019), both levels far above minimum regulatory requirements.

- *Net Stable Funding Ratio (NSFR):* The Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2020, the net stable funding ratio was 249.02% (244.2% at 31 December 2019), both higher than the target set in Basel III.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation.

The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and form of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

35.3 Interest rate risk

To support management of interest rate risk, the Assets and Liabilities Committee uses the repricing gap to analyse the overall time difference between maturity and repricing of assets and liabilities. The repricing gap is calculated by grouping assets and liabilities by their carrying amount based on interest rate repricing dates or by maturity considering the outstanding principal. In the case of callable liabilities for which there is no contractual maturity date, the repricing structure is in line with the historical stability of the balances. The maximum period for demand balances with returns under 0.5% is 2.5 years.

The repricing gaps at 31 December 2020 and 2019 are as follows:

	2020						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undeter-mined maturity**	**Total**
Assets							
Cash, cash balances with central banks and other demand deposits (note 5)	3,276,588	-	-	-	-	-	3,276,588
Loans to credit institutions (note 10)	2,171,219	551,604	37,459	10,395	55	-	2,770,732
Loans and advances to customers (notes 7 and 10)	258,441	144,052	487,943	92,388	60,248	432,852	1,475,924
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	115,224	65,863	652,645	1,247,225	2,519,041	-	4,599,998
Other assets	127,164	186,906	292,476	653,504	-	119,136	1,379,187
Total assets	**5,948,636**	**948,426**	**1,470,523**	**2,003,512**	**2,579,344**	**551,988**	**13,502,429**
Liabilities							
Deposits from central banks and credit institutions (note 13)	7,256,057	1,031,384	45,911	747	55	-	8,334,154
Deposits from customers (note 13)	961,575	67,400	91,565	45,264	42,209	-	1,208,013
Other Liabilities	1,525,338	289,847	444,430	1,004,801	-	695,846	3,960,262
Total liabilities	**9,742,970**	**1,388,631**	**581,906**	**1,050,812**	**42,264**	**695,846**	**13,502,429**
Off-balance sheet operations	1,683,600	385,968	991,783	(1,106,351)	(1,955,000)	-	-
Simple gap	(3,794,334)	(440,205)	888,617	952,700	2,537,080	(143,858)	-
Accumulated gap	(3.794.334)	(3.354.129)	(4.242.746)	(5.195.446)	(7.732.526)	(7.588.668)	-

	2019						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undeter-mined maturity**	**Total**
Assets							
Cash, cash balances with central banks and other demand deposits (note 5)	1,558,271	-	-	-	-	-	1,558,271
Loans to credit institutions (note 10)	1,304,424	73,338	79,728	90,247	106	-	1,547,843
Loans and advances to customers (notes 7 and 10)	168,959	134,724	472,503	485,231	96,319	-	1,357,736
Fixed income portfolio (notes 6, 7, 8, 9 and 10)	196,908	234,599	118,947	1,064,340	2,011,297	-	3,626,091
Other assets	93,767	140,650	215,662	487,585	-	94,399	1,032,063
Total assets	**3,322,329**	**583,311**	**886,840**	**2,127,403**	**2,107,722**	**94,399**	**9,122,004**
Liabilities							
Deposits from central banks and credit institutions (note 13)	5,157,599	32,468	315,899	96,441	106	-	5,602,513
Deposits from customers (note 13)	968,982	37,869	88,368	42,972	39,990	-	1,178,181
Other Liabilities	166,470	249,705	382,879	865,642	-	676,614	2,341,310
Total liabilities	**6,293,051**	**320,042**	**787,146**	**1,005,055**	**40,096**	**676,614**	**9,122,004**
Off-balance sheet operations	688,297	252,254	1,511,744	(627,746)	(1,824,549)	-	-
Simple gap	(2,282,425)	515,523	1,611,438	494,602	243,077	(582,215)	-
Accumulated gap	(2,282,425)	(1,766,902)	(155,464)	339,138	582,215	-	-

The average interest rates of financial instruments in 2020 and 2019 were as follows:

	Percentage (%)	
	2020	**2019**
Cash, cash balances with central banks and other demand deposits	0.00	0,00
Financial assets held for trading	0.17	0.31
Non-trading financial assets mandatorily at fair value through profit or loss	(0.46)	0.01
Financial assets designated at fair value through profit or loss	(0.49)	0.01
Financial assets designated at fair value through other comprehensive income	0.26	0.06
Financial assets at amortised cost		
Credit institutions	(0.38)	(0.22)
Other debtors	0.98	1.01
Financial liabilities at amortised cost		
Credit institutions	(0.42)	(0.38)
Other debtors	(0.13)	0.00

To measure interest rate risk, the risk control unit simulates the financial margin over a 12-month period under different interest rate scenarios, assuming certain historical conditions relating to growth, spreads, repricing periods, stability of receivables on demand, etc. At 31 December 2020 and 2019, the sensitivity of the financial margin to a 100-basis point parallel displacement of the interest rate curve over a 12-month period is as follows:

	%	
	2020	**2019**
Sensitivity of the financial margin		
+ 100 b.p.	(0.92)	(8.90)
- 100 b.p.	4.17	6.75

The interest rate risk is also analysed considering the economic value of equity measured as the effect of changes in the interest rate on the net present value of future expected flows from balance sheet items. The sensitivity of the Bank's economic value to a hypothetical positive 200-basis point parallel displacement of the interest rate curve at 31 December 2020 and 2019 is as follows:

	%	
	2020	**2019**
Sensitivity of equity	(5.62)	(7.50)

35.4 Market risk

Market risk is managed through the value at risk methodology (VaR), which limits losses incurred as a result of adverse changes in market prices. Value at risk is calculated on a daily basis for the treasury and capital market area as a whole, irrespective of the nature of the portfolios. During the 2020 financial year, the calculation methodology was revised in order to include the credit risk of the fixed-income instruments that make up the different portfolios.

The maximum and average VaR are as follows:

	Thousands of Euros	
	2020	**2019**
Average VaR	11,389	10,160
Maximum VaR	19,166	13,144

35.5 Currency risk

Details of the assets and liabilities recognised in the Bank's balance sheet in the most significant currencies at 31 December 2020 and 2019 are as follows:

	Thousands of Euros			
	2020		**2019**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollar	117,778	139,105	131,415	104,775
Pound Sterling	58,315	27,959	47,358	21,478
Swiss Franc	1,405	1,360	1,276	1,535
Norwegian Krone	289	724	267	822
Swedish Krona	105	138	204	151
Canadian Dollar	1,181	1,126	886	975
Danish Krone	279	133	421	110
Japanese Yen	221	368	525	475
Other	2,003	1,472	1,498	784
Total	**181,576**	**172,385**	**183,850**	**131,105**

A breakdown of the main foreign currency balances, based on the nature of the items, is as follows:

	Thousands of Euros	
	2020	**2019**
Assets		
Loans and advances to credit institutions	106,799	125,637
Loans and advances to customers	11,505	14,209
Debt securities	49,884	28,467
Other assets	13,388	15,537
Total	**181,576**	**183,850**
Liabilities		
Deposits from credit institutions	142,778	114,485
Deposits from customers	14,386	8,430
Other liabilities	15,221	8,190
Total	**172,385**	**131,105**

35.6 Risk concentration

Risk concentration is defined as a risk that could affect the Bank's income statement and its equity as a result of holding financial instruments of similar characteristics, which could therefore be similarly affected by economic or other types of changes.

The Bank has established policies to limit the Bank's exposure to certain risks. These policies are defined in coordination with other risk management policies and as part of the Entity's strategic plan. Risk concentration is measured and limits established considering the different risks to which the Bank is exposed, taking into account the nature and rating of the different financial instruments of the Bank, analysed at different levels (entity, bank, sector, country, etc.).

The carrying amount of the different financial instruments is used to measure risk concentration.

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, guarantees given) at 31 December 2020 and 2019, broken down by geographical area, segment of activity, counterparty and purpose of the financing extended, is as follows:

	2020				
	Thousands of Euros				
	Total	**Spain**	**Rest of EU**	**Americas**	**Rest of the world**
Central banks and credit institutions	7,252,454	5,757,587	258,694	17,151	1,219,022
General governments	4,663,612	4,322,752	340,757	-	103
Central government	4,587,084	4,246,327	340,757	-	-
Other general governments	76,528	76,425	-	-	103
Other financial corporations	785,386	364,177	382,061	5,364	33,784
Non-financial corporations and sole proprietorships	798,926	697,174	82,656	5,828	13,268
Real estate construction and development	10,835	10,835	-	-	-
Construction of civil works	9,188	9,188	-	-	-
Other purposes	778,903	677,151	82,656	5,828	13,268
Large corporations	511,482	421,342	76,005	5,776	8,359
SMEs and sole proprietorships	267,421	255,809	6,651	52	4,909
Other household loans	115,899	115,060	263	489	87
Housing	79,653	78,816	261	489	87
Consumer	14,469	14,469	-	-	-
Other purposes	21,777	21,775	2	-	-
TOTAL	**13,616,277**	**11,256,750**	**1,064,431**	**28,832**	**1,266,264**

	2019				
	Thousands of Euros				
	Total	**Spain**	**Rest of EU**	**Americas**	**Rest of the world**
Central banks and credit institutions	4,051,149	2,773,982	1,187,674	63,710	25,783
General governments	3,672,360	3,343,855	328,505	-	-
Central government	3,586,072	3,257,567	328,505	-	-
Other general governments	86,288	86,288	-	-	-
Other financial corporations	785,198	243,334	533,801	5,007	3,056
Non-financial corporations and sole proprietorships	637,373	540,931	77,618	8,704	10,120
Real estate construction and development	35,026	35,026	-	-	-
Construction of civil works	33,890	33,890	-	-	-
Other purposes	568,457	472,015	77,618	8,704	10,120
Large corporations	330,471	244,137	74,257	8,704	3,373
SMEs and sole proprietorships	237,986	227,878	3,361	-	6,747
Other household loans	122,571	122,090	370	111	-
Housing	74,063	73,664	369	30	-
Consumer	22,024	22,024	-	-	-
Other purposes	26,484	26,402	1	81	-
TOTAL	**9,268,651**	**7,024,192**	**2,127,968**	**77,532**	**38,959**

The classification by geographical area and business segment in Spain at 31 December 2020 and 2019 is presented below:

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2020

	Thousands of Euros									
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castile and León**	**Catalonia**
Credit institutions	5,757,587	669,148	32,097	60,240	-	18,411	-	152,345	26,754	-
General governments	4,322,752	7,802	2,821	1,703	8,917	-	-	14,459	10,531	-
Central government (*)	4,246,327	-	-	-	-	-	-	-	-	-
Other	76,425	7,802	2,821	1,703	8,917	-	-	14,459	10,531	-
Other financial institutions	364,177	-	-	-	-	-	-	-	422	300
Non-financial corporations and sole proprietorships	697,174	7,061	41,062	83	9,819	-	2,141	11,568	10,156	14,325
Real estate construction and property development	10,835	-	10	-	-	-	-	-	61	-
Construction of civil works	9,188	-	130	-	-	-	1,252	3,000	-	-
Other purposes	677,151	7,061	40,922	83	9,819	-	889	8,568	10,095	14,325
Large corporations	421,342	4,798	35,223	-	9,819	-	887	7,077	7,568	13,735
SMEs and sole proprietorships	255,809	2,263	5,699	83	-	-	2	1,491	2,527	590
Other household loans and non-profit institutions serving households	115,060	1,263	110	143	77	355	36	827	689	2,118
Housing	78,816	134	85	85	-	76	17	434	532	591
Consumer	14,469	193	24	49	77	279	19	387	152	691
Other purposes	21,775	936	1	9	-	-	-	6	5	836
TOTAL	**11,256,750**	**685,274**	**76,090**	**62,169**	**18,813**	**18,766**	**2,177**	**179,199**	**48,552**	**16,743**

(*) Balance not attributable to any specific Autonomous Region

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2020

	Thousands of Euros								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarre**	**Valencia**	**Basque Country**	**La Rioja**	**Ceuta and Melilla**
Credit institutions	199,483	59,423	4,160,969	40,628	26,752	280,033	31,304	-	-
General governments	-	5,573	12,008	-	3,129	9,482	-	-	-
Central government	-	-	-	-	-	-	-	-	-
Other	-	5,573	12,008	-	3,129	9,482	-	-	-
Other financial institutions	-	-	362,830	-	-	-	625	-	-
Non-financial corporations and sole proprietorships	-	12,456	564,731	7,155	3,034	8,654	4,929	-	-
Real estate construction and property development	-	-	10,764	-	-	-	-	-	-
Construction of civil works	-	2,870	1,906	-	-	30	-	-	-
Other purposes	-	9,586	552,061	7,155	3,034	8,624	4,929	-	-
Large corporations	-	9,526	320,532	4,479	2,816	622	4,260	-	-
SMEs and sole proprietorships	-	60	231,529	2,676	218	8,002	669	-	-
Other household loans and non-profit institutions serving households	97	190	105,642	1,108	6	2,094	152	133	20
Housing	-	21	75,975	-	-	594	145	127	-
Consumer	97	67	12,014	13	6	369	6	6	20
Other purposes	-	102	17,653	1,095	-	1,131	1	-	-
TOTAL	**199,580**	**77,642**	**5,206,180**	**48,891**	**32,921**	**300,263**	**37,010**	**133**	**20**

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2019

	Thousands of Euros									
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castile and León**	**Catalonia**
Credit institutions	2,773,982	658,882	43,005	196,862	-	2,010	-	561,861	52,674	-
General governments	3,343,855	7,765	1,793	10,233	734	-	-	23,828	1,096	-
Central government (*)	3,257,567	-	-	-	-	-	-	-	-	-
Other	86,288	7,765	1,793	10,233	734	-	-	23,828	1,096	-
Other financial institutions	243,334	-	-	-	-	-	-	-	412	-
Non-financial corporations and sole proprietorships	540,931	15,291	42,364	10,289	7,292	-	2,464	10,094	6,263	12,827
Real estate construction and property development	35,026	-	35,026	-	-	-	-	-	-	-
Construction of civil works	33,890	2,520	-	-	-	-	-	-	-	-
Other purposes	472,015	12,771	7,338	10,289	7,292	-	2,464	10,094	6,263	12,827
Large corporations	244,137	6,988	1,486	299	7,292	-	536	3,856	3,599	7,565
SMEs and sole proprietorships	227,878	5,783	5,852	9,990	-	-	1,928	6,238	2,664	5,262
Other household loans and non-profit institutions serving households	122,090	1,327	138	156	104	546	50	980	829	2,420
Housing	73,664	178	91	94	-	76	21	290	569	221
Consumer	22,024	458	45	51	104	470	29	680	247	1,364
Other purposes	26,402	691	2	11	-	-	-	10	13	835
TOTAL	**7,024,192**	**683,265**	**87,301**	**217,540**	**8,130**	**2,555**	**2,514**	**596,763**	**61,274**	**15,247**

(*) Balance not attributable to any specific Autonomous Region

RISK CONCENTRATION BY BUSINESS SEGMENT AND GEOGRAPHICAL AREA AT 31 DECEMBER 2019

	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Credit institutions	49,892	8,457	1,039,970	-	3,771	142,438	14,160	-	-
General governments	-	4,247	13,104	5,616	3,255	14,617	-	-	-
Central government	-	-	-	-	-	-	-	-	-
Other	-	4,247	13,104	5,616	3,255	14,617	-	-	-
Other financial institutions	-	-	242,922	-	-	-	-	-	-
Non-financial corporations and sole proprietorships	-	12,829	391,263	9,695	1,551	12,912	5,797	-	-
Real estate construction and property development	-	-	-	-	-	-	-	-	-
Construction of civil works	-	-	31,370	-	-	-	-	-	-
Other purposes	-	12,829	359,893	9,695	1,551	12,912	5,797	-	-
Large corporations	-	11,418	189,496	5,147	1,256	1,392	3,807	-	-
SMEs and sole proprietorships	-	1,411	170,397	4,548	295	11,520	1,990	-	-
Other household loans and non-profit institutions serving households	211	263	109,730	55	16	3,371	1,722	150	22
Housing	-	30	70,979	-	-	820	162	133	-
Consumer	211	124	17,559	55	16	558	14	17	22
Other purposes	-	109	21,192	-	-	1,993	1,546	-	-
TOTAL	**50,103**	**25,796**	**1,796,989**	**15,366**	**8,593**	**173,338**	**21,679**	**150**	**22**

35.7 Sovereign debt risk

As a rule, the Bank considers sovereign risk to be exposure through transactions with the central bank, issuer risk of the Treasury or Republic, and exposure through transactions with general government entities having the following characteristics: their funds derive solely from State budgets, they are legally acknowledged as entities that directly form part of the "State" sector, and they conduct activities of a non-trade nature.

Details of sovereign risk by country at 31 December 2020 and 2019 are as follows:

	Thousands of Euros				
	2020				
	Held for trading	**At fair value through profit or loss**	**At fair value through other comprehensive income**	**At amortised cost**	**Total**
Spain	73,224	438,109	1,099,758	2,309,697	3,920,788
Italy	4,638	60,287	138,767	136,749	340,441
Romania	316	-	-	-	316
Total	**78,178**	**498,396**	**1,238,525**	**2,446,446**	**4,261,545**

	Thousands of Euros				
	2019				
	Held for trading	**At fair value through profit or loss**	**At fair value through other comprehensive income**	**At amortised cost**	**Total**
Spain	16,221	77,564	1,830,280	1,055,414	2,979,479
Italy	3,837	-	207,036	117,631	328,504
Total	**20,058**	**77,564**	**2,037,316**	**1,173,045**	**3,307,983**

35.8 Regulatory risks

IBOR reform

In the framework of regulatory risks, the global benchmark interest rate reform is a key aspect to be monitored by the Bank. Interbank offered rates (IBORs) are key benchmarks underpinning many contracts within the financial sector globally. Following the Financial Stability Board (FSB) recommendations in 2014, the authorities of various countries have been promoting initiatives so that the financial system reduces its dependence on IBORs and makes a transition to alternative risk-free interest rates (RFR) for the end of 2021. These RFRs have been designed to overcome the pitfalls of IBORs, in particular to minimise reliance on expert judgement and ensure a better level of transparency and understanding in how they are formed. Transitions can be carried out from the rate used historically as a benchmark to the new RFR (i.e. transition from EONIA to €STR in Europe, or the transition from Dollar LIBOR to SOFR in the USA) or by developing the methodology used for the existing rate, both in cases of overnight or term rates.

The Bank has a large number of financial assets and liabilities, the contracts for which are pegged to IBORs. The EURIBOR can be identified as the most relevant benchmark rate and is used for loans and deposits, as well as an underlying in derivatives. The EONIA's presence is lower in the banking book but it is used as an underlying rate in derivative instruments in the trading book and for the treatment of collateral.

The Bank has in place different approaches and deadlines for transition to the new RFRs when evaluating the economic, operational, legal, financial, reputational or compliance risks associated with the transition, as well as to define the lines of action to mitigate these risks.

Application of this reform is not expected to have a significant impact on Banco Cooperativo Español, S.A.'s financial statements.

36. Responsible Lending

Banco Cooperativo Español, S.A. has adopted best practices for responsible lending to consumers, and it has the related policies and procedures in place, thereby complying with the provisions of Ministry of Economy and Finance Order EHA/2899/2011 of 28 October 2011 on transparency and protection of banking services customers and responsible lending. Specifically, the policies on commercial banking risk and the specific regulations derived therefrom stipulate the policies, methods and procedures for responsible granting of consumer loans and credit.

Pursuant to Banco de España Circular 3/2014 of 30 July 2014, a summary of the aforementioned policies adopted by Banco Cooperativo Español, S.A. on commercial banking risk is provided below:

- The need to tailor payment plans to revenue sources;
- for evaluating payment capacity;
- The need to take into account the borrower's foreseeable level of income at retirement;
- The need to consider existing financial payment obligations;
- Where appropriate for commercial reasons or due to the type of rate/currency, offering to include hedging clauses or arrange interest and exchange rate hedges in transactions with borrowers;
- The need, when collateral is pledged, to establish a prudent relationship between the amount of the loan and potential extensions, and the value of the collateral pledged, without taking into account any revaluations of the latter;
- The need to exercise extreme prudence in the use of appraisal values for credit transactions in which real estate assets are pledged as collateral in addition to the borrower's personal guarantee;
- The periodic review of the value of collateral pledged to secure the loans granted;
- Several management elements to ensure the appraisal company's independence;
- The need to warn customers of the potential consequences of persistent non-payment in terms of late payment interest and other expenses;
- The criteria for debt renegotiation (refinancing and restructuring);
- The minimum documentation required in transactions for the granting thereof and during the period they are current.

Banco Cooperativo Español, S.A. has the following mechanisms in place to control the effective monitoring of the aforementioned policies:

- Computer validation and controls incorporated into the workflow for analysis, decision-making and arrangement of transactions for the purpose of embedding these management principles;
- Alignment of product catalogue specifications and responsible lending policies;
- Different penalties to ensure appropriate levels of contrasting of decisions in accordance with the complexity of the transaction;
- A reporting framework for monitoring the correct application of responsible lending policies.

BANCO COOPERATIVO ESPAÑOL, S.A.

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

Subsidiaries

31.12.2020

Company	Registered office	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros Amount of interest	Capital and reserves	Total assets	Profit/ (loss)	Other dividends	Interim dividend	Revenues
Rural Informática, S.A.	Madrid	Servicios Informáticos	99.8	0.2	2,603	3,120	109,933	7,649	5,014	3,444	730
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Gestora de Instituciones de Inversión Colectiva	-	100	1,893	2,272	7,534	3,711	-	-	7,581
Rural Inmobiliario, S.L.	Madrid	Tenencia de Inmuebles	100	-	3,486	8,293	78,717	(43)	84	69	801
BCE Formación, S.A.	Madrid	Servicios de Formación	100	-	60	79	294	280	-	-	849
Rural Renting, S.A.	Madrid	Financiera	100	-	600	721	2,162	(16)	-	-	42

31.12.2019

Company	Registered office	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros Amount of interest	Capital and reserves	Total assets	Profit/ (loss)	Other dividends	Interim dividend	Revenues
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	2,603	3,511	76,147	143	-	-	799
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Manager of collective investment undertakings	-	100	1,893	3,486	12,334	3,874	-	-	7,611
Rural Inmobiliario, S.L.	Madrid	Real-estate holding	100	-	3,486	8,215	33,988	78	-	-	793
BCE Formación, S.A.	Madrid	Training services	100	-	60	131	659	331	-	-	1,376
Espiga Capital Gestión, SA.	Madrid	Venture capital management	80	-	288	340	349	9	-	-	13
Rural Renting, S.A.	Madrid	Financial	100	-	600	726	2,747	(5)	-	-	53

Appendix I forms an integral part of note 11 to the annual accounts for 2020, in conjunction with which it should be read.

BANCO COOPERATIVO ESPAÑOL, S.A.

Directors' Report

2020

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

This directors' report summarises the activity carried out by Banco Cooperativo Español from 1 January to 31 December 2020, the Bank's thirtieth year since its incorporation in July 1990.

1. Position of the Entity

1.1Description

Banco Cooperativo Español is a financial group that performs the role of banking headquarters for its associated rural savings banks. As such, considering the particular characteristics of the business activity carried out and the varying requirements of its customers, a segmented structure has been adopted that facilitates business activities while increasing the quality of services and improving cost efficiency. The shareholder savings banks engage in traditional banking activities and, therefore, the main objective of Banco Cooperativo Español is to assist these savings banks in achieving a leading position in the market, taking advantage of synergies and the competitive advantage derived from their association.

At 31 December 2020 the Bank had assets totalling Euros 15,502 million, Shareholders' equity of Euros 585 million and 234 employees.

Within the Bank's organisational structure, the Board of Directors has the greatest decision-making power and the most extensive authority in managing the Entity, except in matters to be approved by the Shareholders. Its main function is oversight of the Group and it delegates routine management tasks to the executive bodies and the management team.

The members of the Board of Directors do not have executive powers.

The Bank primarily operates in Spain and its activities are structured into the following business areas:

- **Treasury and Capital Markets Area**:

  - The particular characteristics of the Bank as a provider of wholesale services mean that the Money Markets and Foreign Currency Area generates the greatest volume of business and is where the Bank makes its presence felt.

  - The Capital Markets Area is responsible for the design, structure and placement of fixed and variable income securities transactions both in Spain and abroad, flotations and privatisations, syndicated loans in Spain and abroad and balance sheet hedging operations of the rural savings banks.

- **Retail Banking**: provides financial services to individuals and businesses with the basic aim of meeting their requirements through a comprehensive offering of products and services, providing the possibility of arranging services and performing operations through various means (branch offices, online banking, telephone banking, mobile banking, ATMs, etc.). As these products and financial services are the cornerstone of our savings banks' relationships with their customers, the Bank has focused the activity of the various units engaged in retail banking on developing, promoting and fostering these products in order to increase the volume and profitability of their business and of Banco Cooperativo Español itself through its two branch offices in Madrid.

- **Corporate Banking**: the Bank follows two basic lines of action in the provision of services to active companies and institutions: commercial support; arranging contracts with customers either individually or in conjunction with the savings banks; and acting as advisor or promoter for the development of new products, commercial undertakings or any initiatives to improve the commercial capacity of this customer segment.

- **Private Banking**: comprises two distinct business lines:

  - Own business: this area renders services to the Bank's own private banking customers and engages in attracting new customers.

  - Savings Bank business: the main aim is to provide support to the shareholder rural savings banks.

- **International Area**: facilitates access by the Rural Savings Banks and the Bank itself to international payment systems and to cooperation and service provision agreements that enable access to the global economy.

The Bank also has various support units such as Human Resources, Organisation and Technology, General Secretaries' Offices and Legal Advisory, Operations, Analysis Services, General Audit and Risks and Internal Audit.

1.2 Business model

The basic pillars of Banco Cooperativo's business model are as follows:

- Banco Cooperativo, as head of banking services for Rural Savings Banks, aims to achieve sustained and profitable growth with the basic objectives of rendering quality services to its shareholder savings banks, strengthening its business and focusing its own activity on the wholesale and corporate banking areas.

- The global risk profile of Banco Cooperativo is low. Most notably it has high capital ratios, estimated profit volatility at the lower end of available benchmarks, low risk exposure (derived mainly from its activity in capital markets) and a robust liquidity position.

- Commercial focus on shareholder Savings Banks and final customers, professional and swift decision-making and extensive use of information technology.

- Active management of intellectual capital, training, motivation and development of employees. The employees of the Banco Cooperativo Group are a cornerstone of the business model.

The Group's activity is subject to the same risks as that of other financial institutions, which can give rise to adverse consequences. Activity is conditioned by other factors such as strong competition, market volatility, the cyclical nature of certain business activities, losses due to litigation and other factors that impact negatively on the Group's profitability and solvency.

A description of these and other specific risks related to banking activity, such as credit, liquidity, market risks, etc., is provided in note 34.

2. Business performance

	Thousands of Euros	
	2020	**2019**
Balance sheet		
Total assets	13,502,429	9,122,004
On-balance sheet customer funds	1,208,013	1,178,181
Other funds managed (*)	6,264,220	6,377,634
Loans and advances to other debtors	1,468,178	1,357,736
Shareholders' equity	584,868	543,924
Profits		
Gross margin	81,381	67,810
Profit before income tax	54,838	43,822
Profit for the year	42,265	32,009
Significant ratios (%). Consolidated data		
Administrative expenses/gross margin	39.20	37.36
Net profit/average equity (ROE)	6.37	6.08
Net profit/average total assets (ROA)	0.26	0.27
Solvency ratio	34.2	35.6

(*) Off-balance sheet figures managed by the Banco Cooperativo Español, S.A. Group

2.1 Economic environment

In its last update in January 2020 of the World Economic Outlook Report, the International Monetary Fund projected that global growth would rise from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% for 2021, a downward revision of 0.1 percentage point for 2019, 2020 and 0.2 for 2021. This downward revision primarily reflects negative surprises to economic activity in a few emerging market economies, notably India, which led to a reassessment of growth prospects over the next two years. In a few cases, this reassessment also reflects the impact of increased social unrest.

On the positive side, market sentiment has been boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and diminished fears of a no-deal Brexit, leading to some retreat from the risk-off environment that had set in at the time of the October WEO. However, few signs of turning points are yet visible in global macroeconomic data.

While the baseline growth projection is weaker, developments since the fall of 2019 point to a set of risks to global activity that is less tilted to the downside compared to the October 2019 WEO. These early signs of stabilization could persist and eventually reinforce the link between still-resilient consumer spending and improved business spending. Additional support could come from fading idiosyncratic drags in key emerging markets coupled with the effects of monetary easing. Downside risks, however, remain prominent, including rising geopolitical tensions, notably between the United States and Iran, intensifying social unrest, further worsening of relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline.

Stronger multilateral cooperation and a more balanced policy mix at the national level, considering available monetary and fiscal space, are essential for strengthening economic activity and forestalling downside risks. Building financial resilience, strengthening growth potential, and enhancing inclusiveness remain overarching goals. Closer cross-border cooperation is needed in multiple areas, to address grievances with the rules-based trading system, curb greenhouse gas emissions, and strengthen the international tax architecture. National-level policies should provide timely demand support as needed, using both fiscal and monetary levers depending on available policy room.

However, these forecasts are completely out of date due to the outbreak of the Covid-19 virus in China and its spread worldwide.

For this reason, the International Monetary Fund has recently edited a new report in which it sets out the economic policy steps to address the corona crisis, which are summarised as follows:

Monitoring, containing and mitigating the effects of the coronavirus are top priorities. Timely and decisive actions by health authorities, central banks, fiscal, regulatory and supervisory authorities can help contain the virus outbreak and offset the economic impact of the pandemic.

Central banks must support demand and confidence by preventing a tightening of financial conditions, lowering borrowing costs for households and firms, and ensuring market liquidity.

Fiscal policy must step up to provide sizable support to the most affected people and firms, including in hard-to-reach informal sectors.

Regulatory and supervisory responses must aim to preserve financial stability and banking system soundness while sustaining economic activity.

Significant steps have been taken in recent days, going in the right direction, but more needs to be done. As the virus spreads across the globe, decisive and coordinated action is key to providing stability to the global economy and financial markets, boosting confidence, and preventing deep and prolonged economic effects. We must also help poorer and the most vulnerable countries by providing equipment and financing to prevent and treat infections.

The IMF stands ready to support its membership, including through financial support for the countries hardest hit.

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

2.2 Balance sheet

- Total assets increased by 48.0% to Euros 13,502,429 thousand.
- Loans and advances to customers amounted to Euros 1,468,178 thousand at 31 December 2020, increasing 9.0% compared to the 2019-year end.
- Deposits from customers grew by 2.5% to Euros 1,208,013 thousand.
- Deposits from credit institutions and central banks increased by 47.6% to Euros 10,551,019 thousand.
- Shareholders' equity increased by 7.5% to Euros 584,868 thousand.

2.3 Income statement

- The interest margin was Euros 53,673 thousand, representing an increase of 7.3% on 2019.
- Gross margin increased by 20.0% to stand at 81,381 euros.
- Administrative and personnel expenses grew by 5.3% to Euros 26.673 thousand. Depreciation totalled Euros 2,999 thousand (up 6.4%). In 2020 the sum of provisions and impairment losses on assets led to a credited amount of Euros 2,938 thousand. Consequently, results from operating activities stood at Euros 54,838 thousand (increased by 25.1% compared to 2019).
- Profit for the year amounted to Euros 42,265 thousand, 32.0% higher than in 2019.

2.4 Business units

The results of the different business segments comprising the Banco Cooperativo Español, S.A. and subsidiaries and their performance in 2020 and 2019 are summarised below.

	Thousands of Euros									
	Commercial banking		**Asset management**		**Markets**		**Corporate activities**		**Total Group**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Gross margin	16,932	16,837	13,498	14,202	49,848	42,076	3,736	7,707	84,014	80,821
Administrative expenses and depreciation	8,313	7,995	4,864	4,678	8,024	7,717	11,729	11,280	32,931	31,670
Provisions and impairment losses on financial assets	778	(603)	-	-	-	-	-	-	778	(603)
Results from operating activities	7,841	9,445	8,634	9,524	41,823	34,359	(7,993)	(3,573)	50,305	49,754
Other profit	-	-	-	-	-	-	183	-	183	-
Profit/(loss) before income tax	7,841	9,445	8,634	9,524	41,823	34,359	(7,810)	(3,573)	50,488	49,754
Income tax	2,161	2,526	2,380	2,547	11,529	9,188	(2,153)	(956)	13,917	13,305
Consolidated profit/(loss) for the year	**5,680**	**6,919**	**6,254**	**6,977**	**30,295**	**25,171**	**(5,657)**	**(2,618)**	**36,571**	**36,449**

2.5 Environmental issues

Environmental preservation is a priority of the Bank when performing its activity and it seeks to promote initiatives to protect the environment and prevent and mitigate environmental damage. The Bank has a recycling protocol aimed at minimising the waste generated by activity, which is generally very limited; and it is especially concerned with financing projects for the protection and improvement of the environment.

2.6 Human resources

Banco Cooperativo's human resources management model is aimed at promoting professional growth and development within the organisation, prioritising promotion and internal rotation, in order to foster a workforce with a breadth of knowledge and ensure equal conditions and opportunities.

2020 was marked by the COVID-19 pandemic, which entailed a significant shift in the human resources management model, since practically overnight 95% of employees went from performing their work in person to working remotely. This posed a technological and team management challenge which, by the hand of all employees and considering the notable capacity for adaptation that our organisation has historically demonstrated, was handled with great success; none of the services we provide to our shareholder savings banks and customers were altered, reduced or experienced a drop in quality.

This transformation has enabled us to boost the digital skills of all employees and to better prepare ourselves for the new and coming management models, focusing on training that can better equip the entire workforce in this connection.

Although the Bank's policy has always been based on equal opportunities and fostering the internal promotion and development of our professionals, this year we have made this trait even more evident by setting up an equality plan negotiated with the workers' legal representative and rolling out a job evaluation model allowing us to delimit those positions that contribute equal value to the organisation, as established in the equality regulations. This job evaluation model has helped us to optimise our remuneration model.

Among the aspects our employees valued most highly in 2020 were the speed, agility and flexibility demonstrated as regards remote working; the proximity, communication, solidarity and motivational actions implemented during the period of full lockdown; how the scaling down and gradual return to the office were managed, combining remote work with in-person work; and all the prevention measures implemented to avoid COVID-19 contagion.

Our core values revolve around respect, integrity, commitment, team spirit and especially the quality of internal and external customer service.

	2020	2019
Average length of service (years)	13.2	12.7
Average age	44.3	43.2
Training:		
(%) University graduates	83	83
No. of hours of training	7,189	8,805
Hours of training/employee	30	34
Diversity (%)		
Female	51	53
Male	49	47
HR management (%)		
Internal promotion	18	11
Permanent contracts	99	99

3. Liquidity and capital

3.1 Liquidity

Liquidity risk management consists of ensuring that the Group always has sufficient liquidity to meet its payment commitments associated with the settlement of its liabilities on their respective maturity dates without compromising its capacity to respond rapidly to strategic market opportunities. This function includes obtaining financing in wholesale markets at the lowest possible cost in the medium and long term, with a view to maintaining an optimum level of liquid assets in keeping with a policy of prudence.

In this context, the key to resolving liquidity problems resides in anticipating them and implementing preventive management techniques. The Bank is aware of this and therefore considers both aspects its first line of defence against the potential adverse effects of liquidity shortages on its results, reputation and creditworthiness.

To enable early identification, the Group continually monitors its liquidity position in the short, medium and long term and the performance of the main monetary and capital markets in which it operates. To this end it relies on: (i) a wide range of quantitative and qualitative indicators, (ii) limits and alerts defined on the basis of maximum tolerance to liquidity risk and (iii) the human, technical and operational support required to properly incorporate these indicators as a strategic and risk management input.

With regard to preventive management, the Asset and Liability Committee (ALCO) focuses structural liquidity management on: (i) the balance between positive and negative cash flows over a long time horizon, (ii) the diversification of uses and sources of funding and (iii) the protection of the Bank's ability to finance its growth and meet its payment obligations on the date and in the manner established in the contract at a reasonable cost and without affecting its reputation.

Finally, in terms of anticipation, the Bank has a buffer of liquid assets free of encumbrances that enable it to comfortably cope with situations of severe stress. The quality, relative liquidity and suitability as collateral of the assets that make up the buffer are periodically verified and these assets are subjected to stress tests to determine their ability to cope with extreme situations.

The main metrics currently used to control liquidity and the results of applying them at 31 December 2020 are:

- ***Daily liquidity controls***: the Bank continually monitors its intraday liquidity, the eligibility of securities to be pledged as collateral to obtain financing from Banco de España (credit facility) and the sufficiency of its headroom (buffer of available liquid assets) in dealing with short-term cash outflows, among other indicators. This analysis also envisages further stress tests on its portfolio of eligible assets (those pledged as collateral for the Banco de España credit facility and others), subjecting the securities to scenarios of a reduction in their market value, downgrades in rating and loss of eligibility.

- ***Liquidity gap***: provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Very conservative behavioural criteria and assumptions have been established for unknown contractual maturities.

- ***Short-term liquidity coverage ratio (LCR):*** under the stress scenario defined in Basel III, the 30-day liquidity ratio at 31 December 2020 stood at 324.8%, which is above minimum regulatory requirements for that date (100%).

- ***Net Stable Funding Ratio (NSFR):*** the Bank maintains a balanced structure in its long-term financing that is adapted to its liquidity profile. At 31 December 2020 the net stable funding ratio was 249.0%, higher than the target set in Basel III.

Moreover, the Bank has activated a number of alerts and thresholds that are continually monitored, enabling it to foresee any potential liquidity stress and, where necessary, automatically convene the ALCO for an extraordinary or crisis meeting, depending on the situation. The latter initiative is considered in the liquidity risk contingency plan, the Bank's second line of action against potential adverse effects of liquidity shortages. Essentially, this is an action plan with a practical focus that enables the Bank to optimise the timing, cost and manner of its response to high-exposure or critical situations and mitigate possible disturbances and impacts on business continuity during such episodes.

Further information on residual maturities and the Bank's financing structure can be found in note 35 to the annual accounts.

3.2 Capital

Capital management seeks to guarantee the solvency of the Entity and ensure compliance with internal capital targets and regulatory requirements, and is a fundamental decision-making tool.

The Entity's target capital is defined as the capital which the Entity considers necessary to hold both now and in the future as per its capital planning and which is in keeping with the risks inherent to its activity, the economic environment in which it operates, the governance, management and risk control systems, the strategic business plan, the quality of available capital, regulatory requirements (current and future requirements insofar as the latter are known) and the real possibilities of obtaining more capital if so required.

Eligible capital amounts to Euros 578,747 thousand, while capital requirements are Euros 135,313 thousand, giving rise to a surplus of Euros 443,434 thousand.

All eligible capital comprises common equity tier capital (CET 1).

The most significant figure in eligible capital corresponds to credit, counterparty, dilution and delivery risks, which stand at Euros 97,518 thousand and represent 72.1% of total capital requirements calculated in accordance with Banco de España regulations.

As a result, solvency ratio and the Tier I capital ratio stood at 34.2%.

	Thousands of Euros	
	2020	**2019**
Capital	129,318	122,034
Share Premium	85,972	85,972
Reserves and other	327,313	331,598
Result of the exercise	36,579	27,006
Valuation adjustments	8,229	27,688
Deductions	(6,525)	(8,040)
Transient adjustments	(2,140)	-
Common Equity Tier 1 (CET 1) capital	**578,747**	**558,570**
Additional Tier 1 items	-	-
Tier 1 capital	**578,747**	**558,570**
Collective provision	-	-
Tier 2 capital	-	-
Total eligible capital	**578,747**	**558,570**
Credit, counterparty, dilution and delivery risk	97,518	81,581
Price, currency and commodity position risk	15,437	20,688
Operational and other risks	22,358	23,282
Total capital requirement	**135,313**	**125,551**
Surplus	**443,434**	**433,019**
Capital ratio (%)	**34.2**	**35.6**
Tier 1 capital (%)	**34.2**	**35.6**
Leverage exposure	8,448,222	7,099,377
Leverage ratio* (%)	**6.85**	**7.87**

4. Risks

A summary of the principles governing risk management at Banco Cooperativo is as follows:

- A risk profile adapted to strategic objectives, which include a high level of solvency.
- Involvement of Senior Management.
- Segregation of duties, guaranteeing the independence of the control function and comprehensive management of risks by the areas giving rise to them.
- Clear focus on supporting the business, without prejudice to the foregoing principle and maintaining the quality of risk in line with the Group's risk profile.
- Power allocation policies and control mechanisms structured and adapted to the various phases of the risk circuit, thereby ensuring adequate risk management and a risk profile that is in keeping with the parameters defined by the Board of Directors and Senior Management.
- Use of appropriate systems for the identification, measurement, control and monitoring of risks.
- Policies and procedures to reduce risks through mitigation techniques.
- Allocation of capital that is adapted to the level of risk assumed and the economic environment in which the Entity operates.

These principles are reflected in internal policies related to the approval, monitoring and control of risks and are set forth in the corresponding manuals and monitored on an ongoing basis, as explained further on.

The Bank has a strategic risk framework, the purpose of which is to ensure the control and proactive management of all risks to which the Group is exposed. This framework is partly instrumented through a Risk Appetite Framework (RAF), which stipulates the quantity and diversity of risks sought and tolerated by the Bank to achieve its business objectives, while preserving a balance between risk and return.

The RAF is composed of quantitative metrics, which enable objective monitoring of risk management, and complementary qualitative aspects. Risk management and control is configured as a far-reaching set of principles, policies, procedures and advanced valuation methodologies, integrated to form an efficient decision-making structure under a risk governance framework that is compliant with the legislation in force.

For each relevant risk to which the Group is exposed, the RAF details the main parties involved, their functions, policies, methods and procedures, as well as the monitoring and control mechanisms. It also specifies the organisation of the risk function, indicating the roles and responsibilities of the different risk departments and committees and their control systems, which are tailored to the activities of the business units, including the function of granting loans and credit.

The main financial risks to which the Bank is exposed are capital risk, excessive leverage, liquidity risk, profitability risk, operational risk, interest rate risk, credit risk, concentration risk and market risk. The most relevant of these is credit risk.

The main non-financial risks to which the Group is exposed are operational risk, tax risk and regulatory compliance risk.

4.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees given, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

The credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank’s credit risk control policies and objectives have been approved by the Board of Directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank’s risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank’s risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank’s management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in late payment or default, to determine the effectiveness of the hedges arranged by the Entity, in order to take any necessary measures to improve the Bank’s acceptance policies and credit risk analysis mechanisms.

4.2 Market risk

Market risk management is carried out on a two-tier basis:

a) Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations

b) Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin.

The basic functions of the risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulations for those portfolios or unusual products with special characteristics for which the covariations model cannot be used.

VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits.

- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions have remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Bank's Assets and Liabilities Committee.

4.3 Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.

- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.

- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of the Entity, discounting expected future flows.

4.4 Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

With respect to counterparty risk of derivative positions, credit risk is offset on positions where the counterparty is a financial institution that is party to the financial operations framework agreement, which allows parties to offset positions with negative market values against positions with positive market values in the same entity. At 31 December 2019 offset agreements have been implemented with 56 entities (56 entities at 31 December 2018).

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Bank's Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Note 34 to the annual accounts contains detailed information on the risks to which the Group's activity is exposed, including credit risk, market risk, interest rate risk, refinancing risk, currency risk and risk concentration.

5. Outlook

In 2021, the Bank will design and launch new areas of business, allowing it to enhance its market presence and that of the shareholder rural savings banks, reinforce control of the different activities and improve the quality of services rendered.

6. Research, development and innovation activities

The Bank has continued to develop technological applications to save costs and increase the quality of the services rendered to our customers, and so as to address new requirements to update technological and functional areas. The main work carried out has allowed the Bank to continue with its policy to make the most of resources, leading to improved efficiency and the streamlining of processes.

7. Acquisition and sale of own shares

No transactions were carried out with own shares in 2020.

8. Other relevant information

The rating agencies commissioned all highlighted the Bank's low risk profile due to its robust levels of capitalisation, estimated profit volatility at the lower end of the benchmarks applied and low estimated exposure to various risks as a result of its policies and practices.

At the date of this report, the ratings assigned to the Bank are as follows:

Fitch	BBB
DBRS	BBB (high)

Coronavirus (COVID-19)

To mitigate the economic impacts of this crisis, on Wednesday 18 March 2020, Royal Decree-Law 8/2020 of 17 March 2020 on extraordinary urgent measures to address the economic and social impact of COVID-19 and Royal Decree-Law 11/2020 of 31 March 2020 adopting urgent complementary social and economic measures were published in Spain. Subsequently, Royal Decree-Law 26/2020 extended the deadline for applying for the mortgage and non-mortgage moratoriums (RDL 8/2020 and RDL11/2020) until 29 September 2020, provided that the debtor is in a situation of unexpected vulnerability.

In addition, Royal Decree-Law 8/2020 and Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment provided for State-back guarantees for up to Euros 100 billion.

The period initially set to grant these guarantees ended on 31 December 2020, in accordance with the initial provisions of the European Union regulations on State aid.

However, in the fourth amendment of the State aid Temporary Framework, the European Union extended the deadline for the availability of the guarantees released thereunder until 30 June 2021, and Spanish regulations were brought into line with this new deadline by Royal Decree-Law 34/2020, which also sets 30 June 2021 as the deadline for granting public guarantees to meet the liquidity needs of the self-employed and companies, thus amending Royal Decree-Law 8/2020 of 17 March 2020 and Royal Decree-Law 25/2020 of 3 July 2020.

Additionally, for debtors meeting certain requirements, Royal Decree Law 34/2020 provides for an extension of up to three additional years on the maximum maturity of loans with public backing granted under Royal Decree-Law 8/2020, which will be accompanied by an equal extension of the public guarantee (provided that the total guaranteed loan does not exceed eight years from the date on which the loan was initially arranged). New loans subsequently granted under this facility would also see the maximum term increased to eight years. With respect to loans with a guarantee granted under Royal Decree-Laws 8/2020 and 25/2020, it also provides for the extension of the grace period on the payment of the principal of the guaranteed loan for a maximum of 12 months, thus establishing a maximum total grace period of 24 months.