ANNUAL ACCOUNTS AUDIT

INSTITUTO DE CRÉDITO OFICIAL

2020 Audit Plan

AUDInet Code 2020/1006

National Audit Office

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AUDIT REPORT OF CONSOLIDATED ANNUAL ACCOUNTS ISSUED BY THE COMPTROLLER GENERAL OF THE STATE ADMINISTRATION (IGAE)

To the General Council of Instituto de Crédito Oficial:

Opinion

The Comptroller General of the State, using the powers conferred to it by article 168 of the General Budget Law, has audited the consolidated annual accounts of Instituto de Crédito Oficial (hereinafter the Dominant entity or the Institute) and its subsidiaries (the Group), which comprise the balance sheet at 31 December 2019, the consolidated profit and loss account, the consolidated statement of recognised revenue and expenses, the consolidated statement of changes in equity, the consolidated cash flow statement and consolidated report for the year ending on that date.

In our opinion, the accompanying consolidated annual accounts give, in all significant aspects, a true and fair view of the equity and financial position of the entity as at 31 December 2019, and of its results and cash flows for the year then ended, in accordance with the applicable financial reporting framework (specified in note 1.2 of the consolidated report) and, in particular, with the accounting principles and criteria contained therein.

Basis of the opinion

We conducted our audit in accordance with the standards regulating account auditing activity that apply to the Public Sector in Spain. Our responsibilities in accordance with these standards are described below in the *Responsibilities of the auditor in relation to the audit of consolidated annual accounts* section of our report.

We are independent from the entity in accordance with the ethical and independence protection requirements that are applicable to our audit of the consolidated annual accounts for the Public Sector in Spain, as required by the standards regulating Public Sector account auditing activity.

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

Key issues of the audit

The key issues of the audit are issues that, in our professional opinion, were of greater significance in our audit of the consolidated annual accounts for the current period. These issues have been dealt with in the context of our audit of the consolidated annual accounts as a whole, and in the formation of our opinion on these, and we do not express a separate opinion on those issues.

Estimate of losses due to impairment of the portfolio of loans and advances

The estimate of the impairment of the value of Financial Assets at Amortised Cost is one of the most significant estimates in the preparation of the accompanying consolidated annual accounts.

To estimate credit risk hedges, the provisions of Circular 4/2017 of 27 November and other mandatory rules approved by the Bank of Spain are taken into account.

In general, the Institute recognises objective evidence of impairment when, following initial detection, an event or the combined effect of several events cause a negative impact on the future cash flows from loans and advances to customers. Objective evidence of impairment is determined individually for the debt instruments that the Institute has identified as significant and collectively for the others. The Institute's collective assessment includes groups of debt instruments that have similar risk characteristics, indicative of the debtors' ability to pay the principal and interest amounts, the type of instrument, the debtor’s sector of activity, the type of guarantee and the age of amounts due, among others.

Our audit approach has included both the assessment of the most relevant controls established by the Institute related to the calculation of impairment, as well as the performance of detailed and substantive tests. The main audit procedures carried out have included the following:

- Verification of the various internal control policies and procedures established, in accordance with applicable regulatory requirements.
- Examination of the individual databases used, with a review of their reliability and the consistency of the data sources used in the calculations.
- Evaluation of the review carried out of borrowers' records to ensure their proper classification and, where appropriate, possible impairment.

- For the detailed tests, for a sample of individualised loans we reviewed, , their proper accounting records and classification, and, where applicable, the corresponding impairment.
- Re-calculation of the provisions of loans classified as Normal risk or Normal risk under Special Surveillance, evaluated on the basis of the alternative solutions established in the Bank of Spain Circular 4/2017.

The assessment methods used and the detail of information relating to the aforementioned items are included in notes 2 and 10 of the accompanying consolidated report.

Risks associated with Information Technology

The very nature of the Institute's activity and the process of the flow of financial information greatly depends on Information Systems.

The overall internal control framework for Information Systems in relation to the processing and recording of financial information is considered key to our assessment of internal control.

In this context, it is considered necessary to evaluate the effectiveness of General Controls of internal control relating to Information Technology Systems.

Our audit approach has included the following processes:

- The evaluation of the most relevant general controls carried out by the Institute in key processes. The main procedures carried out have consisted of general control tests on the main applications, where we reviewed:
    - *Management of changes*
    - *Physical and logical security*
    - *Back-ups and Continuity*
    - *Computer Systems Operations*
- Revision of the existing interfaces between the main applications in the process of generating accounting information.

Other issues

The audit firm Mazars Auditores, S.L.P. by virtue of the contract signed with the Ministry of Finance, at the proposal of the Comptroller General of the State Administration, has carried out the audit work referred to in the first section. In this work, the Comptroller General of the State Administration applied the Technical standard on collaboration with private auditors in carrying out public audits of 11 April 2007.

The Comptroller General of the State Administration has drawn up this report on the basis of the work carried out by the auditing firm Mazars Auditores, S.L.P.

Other information: Management report and report on the fulfilment of economic-financial obligations of state public sector entities subject to the General Accounting Plan for Spanish business and their adaptations as a result of belonging to the public sector

The other information includes the consolidated management report for 2019 and the report on the fulfilment of economic-financial obligations referred to in article 129.3 of the General Budget Law undertaken by the Institute as a result of belonging to the Public Sector. Their formulation is the responsibility of the Institute's President and they do not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover this other information. Our responsibility in relation to the other information, in accordance with the requirements of the standards regulating account auditing activity, is to assess and report the consistency of the other information with the consolidated annual accounts, based on the knowledge gained on the entity while auditing the aforementioned accounts and excluding information other than that obtained as evidence during this audit. In addition, our responsibility with respect to the other information is to assess and report whether its content and presentation are compliant with applicable standards. If, based on the work that we have done, we conclude that there are material misstatements, we are obliged to report this.

On the basis of the work done, as described in the previous paragraph, we have nothing to report regarding the other information. The information it contains is in line with the consolidated annual accounts for the financial year 2019, and its content and presentation comply with applicable standards.

The President's responsibility in relation to the consolidated annual accounts

The President is responsible for formulating the accompanying consolidated annual accounts in a way that accurately represents the entity’s equity, financial situation and results, in accordance with the normative framework of financial information applicable to the entity in Spain, and with the internal control that they consider necessary to allow for the preparation of consolidated annual accounts free from material misstatement, as a result of fraud or error.

In the preparation of the consolidated annual accounts, the President is responsible for assessing the entity’s ability to continue as a going concern, disclosing, as appropriate, going concern matters and using the going concern accounting principle, unless the President intends or has a legal obligation to liquidate the entity or cease operations, or if there is no other realistic alternative.

The auditor's responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and to issue an audit report that contains our opinion.

Reasonable assurance is a high degree of assurance, but this does not guarantee that an audit conducted in accordance with the standards regulating account auditing activity for the Public Sector in Spain always detects a material misstatement when this exists. Misstatements may be due to fraud or error and are considered material if, individually or at an aggregated level, they may reasonably be expected to influence users’ economic decisions taken based on the consolidated annual accounts.

As part of an audit in accordance with the standards regulating the account auditing activity for the Public Sector in Spain, we apply our professional judgement and we maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and evaluate the risks of material misstatement in the consolidated annual accounts due to fraud or error, we design and implement audit procedures to respond to these risks and we obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material inaccuracy due to error, because fraud may involve collusion, forgery, deliberate omissions, intentionally erroneous reports or the circumvention of internal control.

- We obtain knowledge of the relevant internal control for the audit in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- We evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and related disclosures made by the President.

- We establish whether the President’s use of the going concern principle is appropriate and, based on the audit evidence obtained, we conclude whether or not there is a material uncertainty related to the facts or conditions that may generate significant doubts about the entity's ability to continue as a going concern.

- If we conclude that material uncertainty exists, we must report this in our audit report on the corresponding information disclosed in the consolidated annual accounts or, if such disclosures are not adequate, we must express a modified opinion. Our findings are based on audit evidence obtained up to the date of our audit report. However, future facts or conditions may cause the entity to cease to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including disclosed information, and whether or not the consolidated annual accounts accurately represent transactions and underlying facts.

We communicate with the President on, among other issues, the scope and timing of the planned audit and the audit’s significant findings, as well as any significant shortcomings in internal control that we identified during the audit.

Among the issues that have been communicated to the entity’s President, we identify those that have been of the greatest importance in the audit of the consolidated annual accounts for the current period and that are, consequently, the audit’s key issues.

The present audit report was signed electronically through the CICEP.Red application of the Comptroller General of the State Administration by the Audit Director and by the Head of Division of the National Audit Office in Madrid on 13 April 2020.

INSTITUTO DE CRÉDITO OFICIAL
AND SUBSIDIARIES

Consolidated Annual Accounts at 31 December 2019 and Consolidated Management Report corresponding to 2019

Free translation of consolidated annual accounts originally issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Expressed in thousands of Euros)

ASSETS	2019	2018
Cash, deposits at central banks and demand deposits (Note 6)	**784 604**	**1 669 486**
Financial assets held for trading (Note 7)	**69 407**	**109 154**
Derivatives	69 407	109 154
Memorandum item: loaned or advanced as collateral		
Financial assets not held for trading obligatorily valued at fair value through profit or loss (Note 8)	**-**	**21 580**
Financial assets at fair value through other comprehensive income (Note 9)	**1 826 137**	**1 671 294**
Equity instruments	827 551	642 090
Debt securities	998 586	1 029 204
Loans and advances		
Memorandum item: loaned or advanced as collateral		
Financial assets at amortized cost (Note 10)	**28 469 446**	**32 001 853**
Debt securities	7 843 423	9 503 883
Loans and advances	20 626 023	22 497 970
Credit institutions	10 215 054	12 436 479
Customers	10 410 969	10 061 491
Memorandum item: loaned or advanced as collateral		
Hedging derivatives (Note 11)	**393 353**	**485 855**
Investments in joint ventures and associates (Note 12)	**65 059**	**60 858**
Joint ventures	-	-
Associates	65 059	60 858
Property, plant and equipment (Note 13)	**86 973**	**88 109**
Property, plant and equipment		
For own use	86 973	88 109
Memorandum item: Acquired under financial lease	-	-
Intangible assets (Note 14)	**6 922**	**7 005**
Other intangible assets	6 922	7 005
Tax assets (Note 15)	**103 610**	**100 986**
Current	8 557	2 985
Deferred	95 053	98 001
Other assets (Note 16)	**36 143**	**34 865**
Non-current assets and disposable groups of elements qualified as held for sale (Note 17)	**-**	**-**
TOTAL ASSETS	**31 841 654**	**36 251 045**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Expressed in thousands of Euros)

LIABILITIES	2019	2018
Financial liabilities held for trading (Note 7)	**69 313**	**104 885**
Derivatives	69 313	104 885
Financial liabilities at fair value through profit or loss		**-**
Financial Liabilities at amortized cost (Note 18)	**25 813 190**	**30 295 171**
Deposits	9 676 814	10 435 829
Central Banks	499 902	-
Credit Institutions	8 477 599	9 447 789
Customers	699 313	988 040
Marketable debt securities	15 734 424	19 147 495
Other financial liabilities	401 952	711 847
Hedging derivatives (Note 11)	**240 245**	**253 805**
Provisions (Note 19)	**303 540**	**280 195**
Pensions and similar obligations	579	919
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	7 778	1 442
Other provisions	295 183	277 834
Tax Liabilities (Note 15)	**33 948**	**23 854**
Current	1 005	957
Deferred	32 943	22 897
Other liabilities (Note 16)	**7 837**	**6 371**
TOTAL LIABILITIES	**26 468 073**	**30 964 281**
EQUITY		
Equity (Note 20)	**5 394 074**	**5 343 946**
Capital or endowment fund	4 314 033	4 313 744
Accumulated reserves		
Revaluation reserves	20 858	23 591
Other reserves	949 805	930 940
Profit and loss for the period	109 378	75 671
Less: Dividends and remunerations		
Other accumulated comprehensive income (Note 21)	**(20 493)**	**(57 182)**
Elements that cannot be reclassified at profit and loss	36 916	6 369
Changes in fair value equity inst. at fair value through other comprehensive income	36 916	6 369
Elements that can be reclassified at profit and loss	(57 409(	(63 551)
Cash-Flow hedges	(60 186)	(73 435)
Changes in fair value debt inst. at fair value through other comprehensive income	2 777	9 884
TOTAL EQUITY	**5 373 581**	**5 286 764**
TOTAL EQUITY AND LIABILITIES	**31 841 654**	**36 251 045**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Expressed in thousands of Euros)

MEMORANDUM ITEM	2019	2018
Granted guarantees (Note 22)	449 279	475 124
Contingent granted commitments (Note 22)	3 531 853	3 212 563

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018
(Expressed in thousands of Euros)

	2019	2018
Interest and similar income (Note 24)	**347 102**	**396 934**
Interest and similar charges (Note 25)	**(375 158)**	**(493 452)**
NET INTEREST INCOME	**(28 056)**	**(96 518)**
Dividends income (Note 26)	**-**	**-**
Results of entities valued through equity method (Note 27)	**2 266**	**1 915**
Fee and Commission income (Note 28)	**55 507**	**57 323**
Fee and Commission expense (Note 28)	**(7 603)**	**(8 846)**
Gains or losses from financing operations (net)	**69 412**	**58 591**
Gains or losses on financial assets and liabilities not measured at fair value (net) (Note 29)	10 365	754
Financial assets at fair value through other comprehensive income	-	1 695
Financial assets at amortized cost	10 365	-
Financial liabilities at amortized cost	-	(941)
Gains or losses on financial assets and liabilities held for trading (net) (Note 30)	591	1 023
Gains or losses on financial assets obligatorily at fair value through results (net) (Note 31)	1 984	710
Gains or losses resulting from hedge accounting (net) (Note 32)	56 472	56 104
Exchange differences (net) (Note 2.4)	**4 928**	**49 884**
Other operating income and expenses (Note 33)	**1 820**	**1 137**
GROSS MARGIN	**98 274**	**63 486**
Administration expenses	**(38 912)**	**(39 112)**
Personnel costs (Note 34)	(21 546)	(21 040)
Other administration expenses (Note 35)	(17 366)	(18 072)
Depreciation and amortization	**(3 916)**	**(5 113)**
Property, plant and equipment (Note 13)	(2 014)	(2 091)
Intangible assets (Note 14)	(1 902)	(3 022)
Provisions expense or reversal of provisions (Note 19)	**(5 904)**	**(1 655)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**102 077**	**99 872**
Financial assets at fair value through other comprehensive income (Note 9)	(5 700)	-
Financial assets at amortized cost (Notes 10)	107 777	99 872
Impairment or reversal of impairment on non-financial assets	**(316)**	**(148)**
Goodwill and other intangible assets (Note 14)		-
Other assets (Notes 13 and 17)	(316)	(148)
Profit or loss of non-current assets and groups held for sale of elements classified as held for sale not classified as discontinued operations (Note 17)	**2 910**	**-**
PROFIT OR LOSS BEFORE TAX FROM ONGOING OPERATIONS	**154 213**	**117 330**
Income tax expenses (income) from ongoing operations (Note 23)	**(44 835)**	**(41 659)**
PROFIT OR LOSS AFTER TAX FROM ONGOING OPERATIONS	**109 378**	**75 671**
CONSOLIDATED PROFIT OR LOSS FOR THE YEAR	**109 378**	**75 671**
Profit or loss attributable to the parent company	109 378	75 671

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018

(Expressed in thousands of Euros)

	2019	2018
Profit/(loss) for the year	**109 378**	**75 671**
Other comprehensive income	**36 689**	**73 698**
Elements not classified on profit and loss account	**30 547**	**12 654**
Variations in fair value equity instruments at fair value through other comprehensive income (Note 21)	43 638	18 077
Profit or loss hedge accounting		-
Income tax of elements not reclassified in profit or loss	(13 091)	(5 423)
Elements that can be reclassified in profit or loss	**6 142**	**61 044**
Hedging of cash flows, effective portion (Note 21)	18 927	77 331
Debt instruments at fair value through other comprehensive income (Note 21)	(10 153)	9 874
Income tax of elements that can be reclassified on profit or loss	(2 632)	(26 161)
TOTAL RECOGNIZED INCOME AND EXPENSES (global result)	**146 067**	**149 369**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018

(Expressed in thousands of Euros)

At 31 December 2019

	EQUITY											
			RESERVES									
	Capital / Endowment fund	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities valued through equity method	Other capital instruments	Less: Treasury shares	Profit/(loss) for the year attributable to the parent company	Less: dividends and remunerations	Total equity	Other accumulated comprehensive income	Minority shareholders	Total Equity
Closing balance at December 31, 2018	**4 313 744**	**-**	**940 176**	**14 355**	**-**	**-**	**75 671**	**-**	**5 343 946**	**(57 182)**	**-**	**5 286 764**
Total recognized income and expenses							109 378		109 378	36 689		146 067
Other variations of equity:	289		12 225	3 907			(75 671)	-	(59 250)			(59 250)
Capital increases / endowment fund	289								289			289
Capital decreases												
Transfers between equity items			26 147				(75 671)	47 063	(2 461)			(2 461)
Other increases (decreases) of equity			(13 922)	3 907				(47 063)	(57 078)			(57 078)
Closing balance at December 31, 2019	**4 314 033**		**952 401**	**18 262**			**109 378**	**-**	**5 395 074**	**(20 493)**		**5 373 581**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018

(Expressed in thousands of Euros)

A 31 December 2018

	EQUITY											
			RESERVES									
	Capital / Endowment fund	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities valued through equity method	Other capital instruments	Less: Treasury shares	Profit/(loss) for the year attributable to the parent company	Less: dividends and remunerations	Total equity	Other accumulated comprehensive income	Minority shareholders	Total Equity
Closing balance at December 31, 2017	**4 313 067**	**-**	**1 004 594**	**15 112**	**-**		**103 100**	**-**	**5 435 873**	**(130 880)**	**-**	**5 304 993**
Effects from changes in accounting policies	-	-	(105 118)	-	-		-	-	(105 118)	-	-	(105 118)
Adjusted opening balance	**4 313 067**	**-**	**899 476**	**15 112**	**-**	**-**	**103 100**	**-**	**5 330 755**	**(130 880)**	**-**	**5 199 875**
Total recognized income and expenses	-	-	-	-	-	-	75 671	-	75 671	73 698	-	149 369
Other variations of equity:	677	-	40 700	(757)	-	-	(103 100)	-	(167 598)		-	(62 480)
Capital increases / endowment fund	677								677			677
Capital decreases												
Transfers between equity items			40 700				(103 100)	61 154	(1 246)			(1 246)
Other increases (decreases) of equity				(757)				(61 154)	(61 911)		-	(61 911)
Closing balance at 31 December 2018	**4 313 744**	**-**	**940 176**	**14 355**	**-**	**-**	**75 671**	**-**	**5 343 946**	**(57 182)**	**-**	**5 286 764**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018

(Expressed in thousands of Euros)

	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES	**(835 413)**	**(1 175 163)**
1. Consolidated profit/(loss) for the year	**109 378**	**75 671**
2. Adjustments to obtain operating cash flows	**(72 474)**	**(124 376)**
Depreciation and amortization	3 916	5 113
Other adjustments	(76 390)	(129 489)
3. Net increase /(decrease) in operating assets	**3 629 795**	**4 827 231**
Trading portfolio	39 747	55 617
Other financial assets at fair value through profit or loss	21 580	(21 580)
Financial assets at fair value through other comprehensive income	(154 843)	(294 902)
Financial assets at amortized cost (2019)	3 634 484	4 870 954
Other operating assets	88 827	217 142
4. Net increase/(decrease) in operating liabilities	**(4 509 581)**	**(5 933 118)**
Trading portfolio	(35 572)	(56 112)
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortized cost	(4 481 981)	(5 751 853)
Other operating liabilities	7 972	(125 153)
5. Collections/(payments) for income tax	**7 469**	**(20 571)**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**(2 695)**	**598 715**
6. (Payments)	**(2 697)**	**(6 480 679)**
Property, plant and equipment (Note 13)	(879)	(223)
Intangible assets (Note 14)	(1 818)	(2 084)
Shareholdings (Note 12)	-	(2 424)
Non-current assets and liabilities associated for sale (Note 17)	-	-
Debt securities at amortized cost (Note 10.1)	-	(6 475 948)
Other payments related to investing activities	-	
7. Collections	**2**	**7 079 394**
Property, plant and equipment (Note 13)	-	-
Intangible assets (Note 14)	-	-
Shareholdings (Note 12)	2	-
Non-current assets and liabilities associated for sale (Note 17)	-	22
Debt securities at amortized cost (Note 10.1)	-	7 079 372
Other collections related to investing activities	-	-

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2019 AND 2018

(Expressed in thousands of Euros)

	2019	2018
C. CASH FLOWS FROM FINANCING ACTIVITIES	**(46 774)**	**(60 477)**
8. (Payments)	**(47 063)**	**(61 154)**
Dividends	(47 063)	(61 154)
Subordinated liabilities		-
Amortization of own equity instruments		-
Acquisition of own equity instruments		-
Other payments related to financing activities		-
9. Collections	**289**	**677**
Subordinated liabilities		-
Issue of own equity instruments		-
Disposal of own equity instruments		-
Other collections related to financing activities (Note 20)	289	677
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**(884 882)**	**(636 925)**
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1 669 486**	**2 306 411**
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**784 604**	**1 669 486**
MEMORANDUM ITEM		-
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD		-
Cash (Note 6)	**13**	**13**
Cash equivalent balances with central banks (Note 6)	**709 633**	**1 408 355**
Other financial balances (Note 6)	**74 958**	**261 118**
Less: bank overdrafts repayable		-

INSTITUTO DE CRÉDITO OFICIAL
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
corresponding to the year ended at 31 December 2019

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2019

1. INTRODUCTION, BASIS OF PRESENTATION AND OTHER INFORMATION

1.1 Introduction

Instituto de Crédito Oficial (hereinafter the Parent company or ICO), the Group's Parent Company, incorporated by the Law 13/1971 (19 June) on Official Credit Organization and System, was regulated, up until the publication of Royal Decree Law 12/1995 (28 December) on Urgent Budget, Tax and Financial Measures, by provisions of Article 127 of Law 33/1987 (30 December) on the General State Budgets for 1988 and certain provisions of Law 13/1971 that were not repealed.

The Institute's registered address is located at Paseo del Prado, 4, in Madrid, where it carries out all of its activities, without any other office network in Spain.

The Institute is a public business entity as provided by Article 103 of Law 40/2016, of 1 October, of Legal Regime of the Public Sector, pertaining to the Ministry of Economic Affairs and Digital Transformation, through the Secretary of State for Economy and Company Support. It is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finance, as well as management autonomy to fulfil its purposes.

The Secretary of State for Economy and Company Support is responsible for the Institute's strategic management, as well as for the evaluation and control of the results from its activities.

The Institute is governed by the provisions of Law 40/2015, of 1 October, of Legal Regime of the Public Sector, through Additional Provision Six of Royal Decree-Law 12/1995 (28 December), on Urgent Budget, Tax and Financial Measures; By applicable provisions of the General Budget Act approved by Legislative Royal Decree 1091/1998 23 September, by its bylaws, approved by Royal Decree 706/1999 (30 April), on the adaptation of Instituto de Crédito Oficial to Law 6/1997 (14 April) and the approval of its bylaws (Official State Gazette 114 published on May 13, 1999), and any other matter not covered by the above regulation, are governed by the special legislation applicable to credit institutions and general civil, mercantile and employment legislation.

At the end of 2015, the Council of Ministers approved the Royal Decree 1149/2015, of 18 December, modifying certain precepts of the Instituto de Crédito Oficial (ICO) bylaws in order to introduce improvements of corporate governance operation. On October of the same year, the Public Sector legal regime law was developed by this standard, which gave input for the first time to four independent directors in the State Financial Agency. Objective selection criteria are also set, such as the prestige and training, incompatibilities, and the mandate is for three years, only renewable once for three additional years. In the case of Financial Matters of the own business, the independent directors will have double vote, therefore, they will be majority in the Board (the General Board is composed of the president and 10 members (up to then, 9)). Furthermore, it was established that the appointment and dismissal of all the members corresponds to the Council of Ministers, on the proposal of the Minister of Economic Affairs and Digital Transformation.

The Royal Decree approved by the Council of Ministers develops these modifications. Requirements to be appointed as independent director include: recognized commercial and professional honourability, have appropriate knowledge and experience, not incur in potential permanent conflicts of interest, and refrain from developing activities by self-employed or employed, involving effective competition with ICO. Furthermore, it is required not be linked to credit institutions, financial credit establishments, investment firms, collective investment schemes, venture capital entities, as well as to its subsidiaries and group to which they belong or are associated.

The General Board members will have to perform their functions always attending to ICO's interest, as well as keeping secret on information, data, reports and confidential backgrounds to which they have had access in the performance of their duties, even after their duties have ceased. The dismissal can occur by resignation accepted by the Minister of Economic Affairs and Digital Transformation, expiry of the mandate for the independent members or termination in the case of the members from the public sector. Unexpected lack of suitability in the case of independent members will be cause of dismissal, just like serious breach of confidentiality duties or conflict of interest.

The Institute's purposes are to sustain and promote economic activities that contribute to growth, and the improvement of national wealth distribution, especially, of all those activities that deserve some support due to their social, cultural, innovative or ecological importance.

When pursuing these aims, the Institute must completely respect the principles of financial balance and the adaptation of the means to purposes.

The Institute has also the following functions:

a) Contribute to the mitigation of the economic effects deriving from serious economic recessions, natural catastrophes or similar situations, in accordance with the instructions received in this aspect from the Council of Ministers or the Government Commission for Economic Matters.

b) Act as the principal instrument for executing certain economic policy measures, in line with the fundamental guidelines established by the Council of Ministers or the

Government Commission for Economic Matters, or the Ministry of Economic Affairs and Digital Transformation, subject to the rules and decisions adopted by its General Board.

Within the framework of these purposes and duties, the following types of operations are included:

1. Direct credit and mediation activities, providing financial support to certain sectors and strategic activities, such as small businesses, housing construction, telecommunications, internationalization of Spanish businesses, etc., and the operations transferred by the official banks, now forming part of Banco de Bilbao Vizcaya Argentaria, S.A. (hereinafter BBVA), under the Resolution adopted by the Council of Ministers (hereinafter RCM) on January 15, 1993.

2. Reciprocal Interest Adjustment Agreement (CARI for its initials in Spanish). This exportation support system ensures a good performance for the member financial institution, domestic or foreign. The Institute merely acts as an intermediary in the transaction, charging the State for its management costs, in accordance with the provisions of the General State Budget Act for each year.

   The net result of interest adjustments with member banks is regularly offset by the State or through a payment by the Institute to the State, depending on which part is the debtor or creditor, respectively.

3. Development promotion fund (FONPRODE for its initials in Spanish). This Fund was established in 2010 under Act 36/2010. It is designed to finance development projects and programs in under developed countries in the form of State-to-State grants. The Institute acts as a Government agent. The structure, administration and accounting of these transactions is kept separated from all other operations, in independent accounts maintained by the Institute, and for what ICO is reimbursed for the cost of management in accordance with the General State Budget for each year. As of December 2010, this particular Fund, acquired the Fund for micro-credits granting, also managed by the Institute since 1998 until its merge into FONPRODE.

4. Companies Internationalization Fund (FIEM for its initials in Spanish). This Fund was established in 2010 under Act 11/2010. Its activity consists on providing reimbursable financing for projects, under concessions or market terms, tied to the acquisition of Spanish goods and services and to the execution of Spanish investment projects or those of national interest. The Institute acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by the Institute and for what ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

5. Water and Sanitation Cooperation Fund. It was created through the Sixty-First Additional Provision of Law 51/2007, of 26 December, of the 2008 General State Budget to fund water and sanitation projects under the financing arrangements with the national authorities of the Latin America Countries, considered a priority for the Spanish cooperation.

6. Finance Fund to Local Entities, resulting from the 17/2014 Royal Decree-Law, of 26 December, measures of financial sustainability of the autonomous communities and local entities and others of economic nature, in order to ensure financial sustainability of the municipalities attached, by addressing its financial requirements. The equity of the Fund is endowed by the result of the liquidation of the Fund for the Financing of Payments to Suppliers (created by Royals Decrees 4/2012 and 7/2012), which happens in all its rights and obligations, effective from January 1, 2015. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates for the Institute a pertinent trading commission.

7. Finance Fund to Autonomous Communities resulting from 17/2014 Royal Decree-Law, of 26 December, measures of financial sustainability of the autonomous communities and local entities and others of economic nature, in order to ensure financial sustainability of the autonomous communities attached. The equity of the Fund is endowed by the result of the liquidation of the Autonomous Region Liquidity Fund (created by Royal Decree 21/2012), which happens in all its rights and obligations, effective from January 1, 2015. Also it included in the equity part of the funding mechanism for payment to suppliers in the part corresponding to Autonomous Communities. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates for the Institute a trading commission.

The last six types of operations are not included in the accounts kept by the Group, according to the applicable law for each of them.

1.2 Bases of presentation of the consolidated annual accounts

The Group presents its consolidated annual accounts according to the International Financial Reporting Standards adopted by the European Union (hereinafter, IFRS-EU), taking into account accounting principles and standards established by Circular 4/2017, of 27 November (hereinafter, Circular 4/2017), of Bank of Spain, on public and reserved information standards and models of financial statements. This Circular 4/2017 is compulsorily applicable to individual annual accounts of the Spanish Credit Institutions.

Accordingly, the preparation of the accompanying consolidated annual accounts has been based on the Group Companies' accounting records and in agreement with the International Financial Reporting Standards (IFRS) adopted by the European Union (IFRS-EU) and

Circular 4/2017 of Bank of Spain, and subsequent amendments, and with the Commercial Code, Capital Corporations Act or other applicable Spanish regulations, to show the true and fair view of the Group's consolidated equity and consolidated financial situation at December 31, 2019 and results from its operations, changes in consolidated equity and consolidated cash flows corresponding to the year therein ended.

The information contained on in these consolidated annual accounts corresponding to 2018 is solely and exclusively presented for comparison purposes with information related to 2019 and, accordingly, does not constitute the Group's annual accounts of 2018.

On December 2018, Circular 2/2018, of 21 December, of Bank of Spain was published, amending Circular 4/2017 on public and reserved financial information. This standard entered into force on January 1, 2019 (not affecting the Group's 2018 annual accounts), and amends Circular 4/2017 to adapt it to IFRS 16 on leases. In the case of the Group, its lease agreements do not comply with the standard's objective scope, and thus it will not affect the registration of these operations with its enforcement.

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

Circular 3/2019, of 22 October, exercising the power granted by Regulation (EU) 575/2013 to define the significance threshold of due credit obligations (for solvency purposes).

The standard will be compulsorily applicable from December 1, 2020. Nonetheless, the ICO will apply the provision from January 1, 2020, having communicated such decision to the regulator in due time and form. In general, the standard has a minimum impact in the Institute, since the established thresholds only affect operations with very small defaults (in absolute and relative terms), which remain outside the scope of the ICO's current operations.

Regulation (EU) 2019/876, of 20 May, amending Regulation (EU) 575/2013 (CRR II) of Credit Entities' solvency.

Although, in general, the regulation will enter into force from June 28, 2021, certain provisions entered into force on June 27, 2019 (scope of application, supervisory powers, definitions, admissible equity and liabilities and definitions of the leverage ratio). Such provisions have not affected the ICO.

Standards and interpretations published until the date of formulation of the Group's financial statements that are not yet in force are included below. The Group intends to adopt these standards, if applicable, as soon as they become effective:

- IFRIC 23 - Uncertainty on tax treatments (published on June 2017). This interpretation clarifies how to apply registration and valuation criteria established on the IAS 12 when there is uncertainty regarding the tax authorities' acceptability of a given tax treatment used by the entity.

- Modification IAS 28 – Investments in associates and joint ventures (published on November 2017). Clarification on the treatment of investments in associates and joint ventures not registered through the equity method.

- Improvements of IFRS Cycle 2015-2017 (published on December 2017). Minor modifications of a series of standards.

- IFRS 17 - Insurance contracts (published on May 2017). It substitutes the IFRS 4. It includes the principles of registration, valuation, presentation and disclosure of insurance contracts in order for the entity to provide relevant reliable information to allow users to determine the contracts' effect on the financial statements (compulsory application from January 1, 2021).

- Annual Improvements of IFRS "Cycle 2015-2017". These improvements incorporate minor modifications of IAS 12 - "Income Tax", IAS 23 - "Borrowing costs" and IAS 28 "Investments in associates and joint ventures".

- Modifications of IAS 19 "Modification, reduction or liquidation of a plan". This modification requires an entity to use updated actuarial assumptions to determine the cost of the current service and net interests for the remaining period after a modification, reduction or liquidation of a plan, and to recognize it on profit/(loss) as part of the cost of the past service, or a profit or loss in the liquidation, or reduction in a surplus, even if such surplus had not been previously recognized due to the impact of the limit of assets.

- Modifications of IFRS 3 "Business combinations". It introduces improvements in the definition of business in order to assist entities to distinguish between purchases of assets and business acquisitions. This distinction is relevant because goodwill is only generated in business acquisitions (compulsory application from January 1, 2020).

- Modifications of IAS 1 and IAS 8 "Definition of material". A new definition of "material" is established in order to assist companies to make decisions implying the application of judgements in relation to the information to be incorporated on the financial statements (compulsory application from January 1, 2020).

All compulsory accounting principles and standards with a significant effect have been applied in their preparation, including on Note 2 a summary of accounting principles and standards and the most significant valuation criteria applied on the present consolidated annual accounts. The Chairman of the Group's Parent Company is responsible for the information contained on the present consolidated annual accounts.

The Group's consolidated annual accounts of 2019 have been formulated by the Parent Company's Chairman on March 30, 2020, awaiting approval by the Institute's General Board, Group's Parent Company, expecting their approval without significant changes. The present consolidated annual accounts, unless otherwise indicated, are presented in thousands of Euros.

1.3 Responsibility for information and estimates.

The information contained in the Group's consolidated annual accounts for the year ended at December 31, 2019 and the accompanying consolidated Notes are responsibility of the Institute's Chairman. In the preparation of these annual accounts, some estimates have been made by the Group to quantify certain assets, liabilities, income, expenses, and commitments included in those statements. These estimates basically refer to the following:

- Impairment losses of financial assets (Note 2.7).
- Assumptions used in actuarial calculations of liabilities and commitments related to post-employment benefits and other long-term commitments with employees (Note 2.10.2).
- Useful life of fixed assets and intangible assets (Notes 2.12 and 2.13).
- Losses on future obligations derived from granted contingent commitments (Note 2.14).
- The fair value of certain unlisted assets (Note 2.2.3).
- Recoverability of tax assets (Note 2.11).

Although these estimates were made based on the best information available at December 31, 2019 in relation with the analyzed facts, future events could lead significant adjustments to be made (upward or downward) in coming years. These changes would be made prospectively, to recognize the impact of the change in the estimate of the consolidated profit and loss account for the specific years.

1.4 Transfer of assets and liabilities from the former Argentaria

The extinct entities Argentaria, Caja Postal and Banco Hipotecario, S.A., were the result of the merger between Corporación Bancaria de España, S.A., Banco Externo de España, S.A. (BEX), Caja Postal, S.A. and Banco Hipotecario de España, S.A. (BHE), in accordance with the public merger document dated September 30, 1998. Banco de Crédito Agrícola, S.A. (BCA), which was previously taken over by Caja Postal, S.A. and Banco de Crédito Local de España, S.A. (BCL), which also pertained to the first entity, maintains its legal personality.

Based on what was established in the A.C.M. on February 15, 1993, the Institute acquired on December 31, 1992, assets and liabilities pertaining to BCL, BHE, BCA and BEX derived from economic policy operations that were guaranteed by the State or the Institute and, specifically, the loans and guarantees provided to companies in conversion (covered by the conversion and re-industrialization legislation). Also exceptional loans granted to victims of floods were acquired, as well as loans granted by these entities prior to their transformation into public limited liability companies, and other assets, rights and equity investments.

Furthermore, on March 25, 1993, a management contract was signed with the relevant banks, regarding the assets and liabilities transferred, including its administration as well as its correct accounting in accordance of the current banking legislation.

On January 2019, both the management, and the administration and bookkeeping of transferred assets and liabilities was assumed by the Institute. At December 31, 2019, the balance of net assets was of 57 thousand Euros and the amount of results generated was of 154 thousand Euros (487 thousand Euros of net assets and 262 thousand Euros of results at December 31, 2018).

1.5 Presentation of individual annual accounts

In accordance with Article 42nd of the Spanish Code of Commerce, the Institute has formulated individual annual accounts, at the same date as the present consolidated annual accounts are formulated.

As a summary, the individual balance sheet, the individual profit and loss account, the individual statement of recognized income and expenses, the individual total statement of changes in equity and the individual statement of cash flows of the Instituto de Crédito Oficial corresponding to years ended at December 31, 2019 and 2018 are presented below, prepared in accordance with the same accounting principles and standards and valuation criteria applied on the Group's present consolidated annual accounts:

a) Individual balance sheets at December 31, 2019 and 2018:

	Thousands of Euros	
	2019	2018
Cash, deposits at central banks and demand deposits	784 455	1 669 485
Financial assets held for trading	69 407	109 154
Financial assets not held for trading obligatorily valued at fair value through profit or loss	-	21 580
Financial assets at fair value through other comprehensive income	1 826 137	1 671 294
Financial assets at amortized cost	28 469 446	32 001 770
Hedging derivatives	393 353	485 855
Investments in subsidiaries, joint ventures and associates	46 866	46 868
Property, plant and equipment	86 966	88 099
Intangible assets	6 873	6 949
Tax assets	103 608	100 984
Other assets	35 714	34 543

Non-current assets held for sale	-	-
Total assets	31 822 825	36 236 581
Financial liabilities held for trading	69 313	104 885
Financial liabilities at amortized cost	25 824 723	30 307 204
Hedging derivatives	240 245	253 805
Provisions	303 540	280 195
Tax liabilities	33 948	23 854
Other liabilities	7 277	4 926
Total liabilities	26 479 046	30 974 869
Other accumulated comprehensive income	(20 493)	(57 182)
Equity:	5 364 272	5 318 894
Capital or endowment fund	4 314 033	4 313 744
Reserves	943 298	931 940
Profit/(loss) for the period	106 941	73 210
Total equity	5 343 779	5 261 712
Total liabilities and equity	31 822 825	36 236 581
Granted guarantees	449 279	475 124
Granted contingent commitments	3 531 853	3 212 563
Total memoranda accounts	3 981 132	3 687 687

b) Individual profit and loss accounts corresponding to years ended at December 31, 2019 and 2018:

	Thousands of Euros	
	2019	**2018**
Interest and similar income	347 095	396 926
Interest and similar charges	(375 158)	(493 452)
Net interest income	**(28 063)**	**(96 526)**
Dividends income	7 394	5 339
Fees and commission income	42 654	45 722
Fees and commission expense	(7 603)	(8 846)
Gains or losses when writing off financial assets and liabilities at fair value through profit and loss (net)	10 365	754
Gains or losses for financial assets and liabilities held for trading (net)	591	1 023
Gains or losses for financial assets obligatorily at fair value through profit or loss (net)	1 984	710
Gains or losses resulting from hedge accounting (net)	56 472	56 104
Exchange differences (net)	4 928	49 884
Other operating income	2 020	1 064
Other operating expenses	(211)	-
Gross margin	**90 531**	**55 228**

Administration expenses	(36 139)	(35 288)
Amortization and depreciation	(3 906)	(5 102)
Provisions or reversal of provisions	(5 904)	(1 655)
Impairment of financial assets not valued at fair value through profit or loss	102 077	99 872
Impairment of non-financial assets	(316)	(148)
Gains or losses of non-current assets of elements classified as held for sale	2 910	-
Profit or loss before tax from ongoing operations	**149 253**	**112 907**
Income tax from ongoing operations	(42 312)	(39 697)
Profit or loss before from operations	**106 941**	**73 210**
Profit or loss from discontinued operations (net)	-	-
Profit or loss for the year	**106 941**	**73 210**

c) Statements of changes in equity. Individual statements of recognized income and expenses in equity corresponding to years ended at 31 December 2019 and 2018:

		Thousands of Euros
	2019	**2018**
Profit/(loss) for the year:	**106 941**	**73 210**
Other comprehensive income:	**36 689**	**73 698**
Elements not classified on profit and loss account	30 547	12 654
Change fair value of equity elements at fair value through other comprehensive income	43 638	18 077
Income tax of elements not reclassified in profit and loss	(13 091)	(5 423)
Elements that can be reclassified in profit and loss	**6 142**	**61 044**
Hedging of cash flows, effective portion	18 927	77 331
Debt instruments at fair value through other comprehensive income	(10 153)	9 874
Income tax of elements that can be reclassified in profit or loss	(2 632)	(26 161)
Total recognized income and expenses (global result)	**143 630**	**146 908**

d) Statements of changes in equity. Individual statements of total changes in equity corresponding to the years ended at 31 December 2019 and 2018:

At 31 December 2019

	EQUITY									
	Capital / Endowment fund	**Share premium**	**Reserves**	**Other equity instruments**	**Less: Treasury shares**	**Profit/(loss) for the year**	**Less: dividends and remunerations**	**TOTAL EQUITY**	**OTHER ACCUMULATED COMPREHENSIVE INCOME**	**TOTAL EQUITY**
Closing balance at 31 December 2018	**4 313 744**	**-**	**931 940**	**-**	**-**	**73 210**	**-**	**5 318 894**	**(57 182)**	**5 261 712**
Total recognized income and expenses						**106 941**		**106 941**	**36 689**	**143 630**
Other variations of equity:										
Capital increases / endowment fund	289							289		289
Transfers between equity items			26 147			(73 210)	47 063	-		-
Other increases (decreases) equity			(14 789)				(47 063)	(61 852)		(61 852)
Total other variations of Equity	**289**	**-**	**11 358**	**-**	**-**	**(73 210)**	**-**	**(61 563)**	**-**	**(61 563)**
Closing balance at 31 December 2019	**4 314 033**	**-**	**943 298**	**-**	**-**	**106 941**	**--**	**5 364 272**	**(20 493)**	**5 343 779**

At 31 December 2018

	EQUITY									OTHER ACCUMULATED COMPREHENSIVE INCOME	TOTAL EQUITY
	Capital / Endowment fund	**Share premium**	**Reserves**	**Other equity instruments**	**Less: Treasury shares**	**Profit/(loss) for the year**	**Less: dividends and remunerations**	**TOTAL EQUITY**			
Closing balance at 31 December 2017	**4 313 067**	**-**	**996 289**	**-**	**-**	**101 923**	**-**	**5 411 279**		**(130 880)**	**5 280 399**
Effects from changes in accounting policies	-	-	(105 118)	-	-	-	-	**(105 118)**		-	**(105 118)**
Adjusted opening balance	**4 313 067**	**-**	**891 171**	**-**	**-**	**101 923**	**-**	**5 306 161**		**(130 880)**	**5 175 281**
Total recognized income and expenses	**-**	**-**	**-**	**-**	**-**	**73 210**	**-**	**73 210**		**73 698**	**146 908**
Other variations of equity:											
Capital increases / endowment fund	677	-	-	-	-	-	-	677		-	677
Transfers between equity items	-	-	40 769	-	-	(101 923)	61 154			-	-
Other increases (decreases) equity	-	-	-	-	-	-	(61 154)	(61 154)		-	(61 154)
Total other variations of equity	**677**	**-**	**40 769**	**-**	**-**	**(101 923)**	**-**	**(165 595)**			**(60 477)**
Closing balance at 31 December 2018	**4 313 744**	**-**	**931 940**	**-**	**-**	**73 210**	**-**	**5 318 894**		**(57 182)**	**5 261 712**

e) Individual statements of cash flows corresponding to years ended at 31 December 2019 and 2018:

	Thousands of Euros	
	2019	2018
Cash flows from operating activities:	**(835 561)**	**(1 175 169)**
Profit/(loss) for the year	106 941	73 210
Adjustments to obtain operating cash flows Operating activities	(70 367)	(124 387)
Net increase /decrease in operating assets	3 629 590	4 828 848
Net increase/decrease in operating liabilities	(4 509 194)	(5 932 269)
Collections/payments for income tax	7 469	(20 571)
Net cash flows from investment activities:	**(2 695)**	**598 721**
Payments	(2 697)	(6 480 678)
Collections	2	7 079 399
Cash flows from financing activities	**(46 774)**	**(60 477)**
Effect from exchange rate fluctuations in cash or equivalents	-	-
Net increase/decrease of cash or equivalents	**(885 030)**	**(636 925)**
Cash or cash equivalents at beginning of the year	1 669 485	2 306 410
Cash or cash equivalents at end of the year	784 455	1 669 485

1.6 Environmental impact and greenhouse gas emission rights

The Group's global transactions follow the laws on environmental protection. The Institute considers that it substantially complies with these Laws and maintains procedures designed to ensure and encourage its compliance.

Also, the Group considers that appropriate environmental protection and improvement measures have been taken, and to minimize, when possible, the environmental impact following rules regarding this matter. In 2019 and 2018, the Group has not carried out significant environmental investments and has not considered it necessary to register any provision for environmental risks and charges. Furthermore, the Institute has not considered any significant contingencies in relation with environmental protection and improvement, had not had greenhouse gas emission rights.

1.7 Minimum coefficients

1.7.1 Minimum equity ratio

Bank of Spain, on May 22, 2008, issued Circular 3/2008 on identification and control of minimum equity. The aforesaid Circular is the final development in the field of credit institutions, on the legislation on equity and supervision on a consolidated basis of the credit institutions issued from Law 36/2007 of 16 November. It amends Act 13/1985, of 25 May, of the investment ratio, equity and information obligations of financial intermediaries and other financial system that includes the Royal Decree 216/2008, of February 15 of credit institutions' equity. This also completes the process of adapting the legislation of Spanish credit institutions to EU Directives 2006/48/EC of the European Parliament and the Council of June 14, 2006 concerning the business of credit institutions (recast) and 2006/49/EC of the European Parliament and the Council of June 14, 2006 on capital adequacy of investment services companies and credit institutions (recast). The two Directives have been deeply revised, following the equivalent agreement adopted by the Basel Committee on Banking Supervision (known as Basel II), the minimum capital requirements due to credit institutions and their consolidated groups.

Law 10/2014 of 26 June, concerning management, supervision and solvency of credit institutions, has replaced, from January 1, 2014, the former legal body concerning prudential banking regulation (Law 13/1985, from 25 May, and Circular 3/2008 of the Bank of Spain). Previously, the European Union moved to its legal system Basel III accords, as of December 2010, by Regulation (EU) No 575/2013 of the European Parliament and of the Council from 26 June on the prudential requirements for credit institutions and investment services companies, amending Regulation (EU) No 648/2012 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June, relating to the activity of credit institutions and the prudential supervision of credit institutions and investment services companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC as transposed into our system started with Royal Decree-Law 14/2013, of 29 November, on urgent measures for adaptation of Spanish law with the norms of the European Union supervision and solvency of credit institutions.

The main purpose of Law 10/2014, of 26 June, was to adapt Spanish law to regulatory changes imposed on the international stage and the European Union, directly incorporating the provisions of Regulation (EU) 575/2013 of 26 June (CRR), and making the proper transposition of Directive 2013/36/EU of 26 June (CRD). These Community rules have led to a substantial alteration of the rules applicable to credit institutions, since aspects such as the supervisory regime, capital requirements and penalty system has been extensively modified.

The CRR and CRD regulate capital requirements in the European Union and include the recommendations set out in the Basel III capital regulatory framework or agreement, specifically:

- The CRR, which is directly applicable to Member States, contains prudential requirements for credit institutions and covers, inter alia, the following:

    - The definition of elements of eligible equity, establishing requirements for hybrid instruments to be included and limiting the eligibility of minority interests.
    - The definition of prudential filters and deductions of items in each capital levels. In this respect, the Regulation includes new deductions compared to Basel II (deferred tax assets, pension funds) and introduces changes to existing deductions. Nevertheless, it notes that the Regulation establishes a phase calendar until its final full implementation between 5 and 10 years.

- Establishment of minimum requirements (Pillar I), with three levels of equity: a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a minimum requirement total capital ratio of 8%.
- Requirement of credit institutions to calculate a leverage ratio, defined as Tier 1 capital divided by total exposure unadjusted for risk. The disclosure requirement will be applicable from 2016 onwards and the final definition was established in 2017 by supervisors.

- The aim and main purpose of the CRD, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment firms and their governance and supervisory framework. The CRD includes, inter alia, additional capital requirements to those established in the CRR, which will be phased in gradually until 2019. Failure to comply will imply restrictions on the discretionary distributions of profit, specifically:

  - A capital conservation buffer and a countercyclical capital buffer, extending the regulatory framework of Basel III, to mitigate pro-cyclical effects of financial regulation. All credit institutions must maintain a capital conservation buffer of 2.5% above Common Equity Tier 1 and an institution-specific countercyclical capital buffer above Common Equity Tier 1.
  - A systemic risk buffer. For global systemically important institutions and other systemically important institutions to mitigate systemic or macro prudential risks; i.e. risks of disruptions in the financial system with the potential to have serious negative consequences for the financial system and the real economy in a specific Member State.
  - In addition, the CRD, within the oversight responsibilities, states that the Competent Authority may require credit institutions to maintain a larger amount of equity than the minimum requirements set out in the CRR (Pillar II).

Pursuant to Additional Provision 8th of Law 10/2014, of 26 June, on management, supervision and solvency of credit institutions, the Instituto de Crédito Oficial will apply Titles II (Solvency of credit institutions), III (Supervision) and IV (Legal penalties) of that Law, except as determined by regulations, and the provisions regarding duty of confidentiality of information.

From the period 2015, according with Circular 2/2014 of Bank of Spain, capital buffers established in this standard are applicable. To date, no amount has been established for the specific countercyclical capital buffer by the Banking Supervisor this year. ICO is not an entity of global systemic importance (EISM for its initials in Spanish) nor is it considered as a systemically important entity (EIS for its initials in Spanish).

At December 31, 2019 and 2018, the Group's computable capital is as follows:

	Thousands of Euros	
	2019	2018
Common Equity Tier 1 (*)	5 067 939	5 179 437
Capital	4 314 033	4 313 744
Reserves and prudential filters (**)	753 906	865 693
Tier 2	-	-
Other reserves (**)	-	-
Generic insolvency risk hedging	-	-
Total computable capital	5 067 939	5 179 437
Total minimum capital (***)	2 139 560	2 243 085

(*)The Group has no additional Tier 1.
(**)The total reserves used for the calculation of capital of the Group computable differ from those recorded in the consolidated balance sheet because in the calculation of capital are given: adjustments for intangible assets and adjustments for reserves.
(***)Calculated as 17.34% of risk- weighted assets (RWA), established by Bank of Spain for the Group for 2019 (17.625% for 2018).

At December 31, 2019 and 2018, the most important data of the minimal capital of the Group are (in thousands of Euros):

	Thousands of Euros	
	2019	2018
Tier 1	5 067 939	5 179 437
Risk-weighted assets (RWA)	12 338 868	12 726 723
Tier 1 ratio (%)	41.07%	40.70%
Computable total Capital	5 067 939	5 179 437
Computable total Capital ratio (%)	41.07%	40.70%
Minimum computable capital ratio (%) (*)	17.34%	17.625%

(*) The total minimum capital ratio from 16/03/19, established by Bank of Spain for the entity's Group, is of 17.34%, considering both the requirements established by the Regulation EU 575/2013 (8%), and additional capital needs to cover concentration and business risks and other risks included in the Capital Self-Assessment Report (6.84%) and capital buffers (2.5% from 1/1/19).

At December 31, 2019 and 2018, the Group's computable capital, calculated on a consolidated basis, exceeds minimum requirements required by applicable regulations in 2,928,379 thousand Euros and 2,936,352 thousand Euros, respectively.

1.7.2 Minimum reserves ratio

The Group must maintain a minimum level of funds deposited in a central bank of a Euro country to cover the minimum reserve requirements. At December 31, 2019, this level was

2% of computable liabilities. On November 24, 2011, Regulation (EU) No 1358/2011 came into effect, requiring 1% for additional computable liabilities (time deposits of over two years drawable subject to a notice period of more than two years, sales under repurchase agreements and securities other than shares with maturities of over two years). This amendment was applied following the maintenance period that started on January 18, 2012.

At December 2019 and 2018, and throughout 2019 and 2018, ICO complied with minimum ratios required by applicable Spanish regulations.

1.7.3 Capital management

The Group considers as capital, for management purposes, Tier 1 and Tier 2 computable regulated by the legislation which is applicable to it for solvency purposes (EU Regulation 575/2013).

In this sense, regulatory capital requirements are incorporated directly in the management, thereof in order to maintain at all times a solvency ratio not below the minimum established for the entity by Bank of Spain. This objective is met through a proper capital planning.

1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December, on Tax, Administrative and Social Security measures, amended by aforementioned Law 42/2006, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and the Institute itself, will form part of the Institute's equity. The amount estimated for 2018 totals 170 thousand Euros, which will be registered in 2019.

In 2020, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalized by government order new credit lines for businesses and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute's objectives. The main lines approved are the following:

- Línea ICO Empresas y Emprendedores 2020: this ICO line provides finance to freelances and companies performing its investments within the country and that need to fulfil their liquidity needs. Individuals and landlord communities can also take advantage of this line for housing restoration.

- Línea ICO Garantía SGR/SAECA 2020: this ICO line provides finance to freelances and Spanish or mixed companies, which resources are mainly located in Spain, within a Reciprocal Guarantee Company (SGR for its initials in Spanish) or the state-owned corporation of Caución Agraria (SAECA for its initials in Spanish).

- Línea ICO Crédito Comercial 2020: this ICO line provides finance to freelances and Spanish or mixed companies established in Spain, to obtain liquidity through the advance of the amount of invoices from their commercial business within the national territory.

- Línea ICO Internacional 2020: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish performing productive investments overseas and/or that need to fulfil its liquidity needs.

- Línea ICO Exportadores 2020: this ICO line provides finance to freelances and Spanish companies that have a need of liquidity, and help them though advances in bills coming from its export activity.

- Linea ICO International channel facility 2020: Financing to support the internationalization process for self-employed professionals and companies. The main difference between this product and ICO International Facility and ICO Exporters Facility is that the loans are applied for at local banks or international institutions that have a central office in the country where the investment projects or export activities are carried out.

As every year, during January 2020, ICO and credit institutions that submitted the application for membership of these credit lines handled the contracts' drafting and signatures.

On March 11, 2020, the Worldwide Health Organization rose the public health emergency situation caused by the COVID-19 to international pandemic. The speed in the evolution of events, at national and international scale, and the extraordinary circumstances undoubtedly constitute a major, unprecedented health crisis. In order to face this situation, the Spanish Government has considered it necessary to declare the state of alert, through the publication of the Royal Decree 463/2020.

Additionally, both the Spanish Government and European and international authorities have taken measures and are assessing additional measures for the economic stimulus in order to mitigate the crisis' social and economic impacts.

For the moment being, the Group has already taken the necessary measures to ensure the continuity of its operations and businesses in relation to technological means and personnel management, paying special attention to its personnel security and integrity. At the date of formulation, the Group continues its activity normally.

This situation will affect the Spanish and international macroeconomic environment, which could have a significant impact on the Group's activity. Although, at the date of formulation of these annual accounts, it is too early to perform a detailed valuation or quantification of possible impacts derived from this situation on the activity, due to the uncertainty of its consequences at the short, mid and long terms, the Group considers that this is a transitory situation, which will not compromise the continuity of the activity, which effect will be prospectively registered. Lastly, it should be noted that the Group is performing an ongoing follow-up of the evolution of this situation, in order to report any change on this evaluation, where necessary.

In this sense, last March 18, the State's Official Gazette (BOE) published the Royal Decree Law 8/2020, of urgent extraordinary measures to face the economic and social impact of the COVID-19. Article 30 of this standard establishes the extension of the net indebtedness limit of ICO, as the Group's parent company, in order to increase the ICO Lines' financing amounts to companies and freelancers, in 10,000 million Euros. The Group will adopt the necessary measures, through its decision bodies, to ease and extend available financing, and to improve the companies' access to credits, preserving the necessary financial balance established on its Bylaws.

No significant events other than those described in the previous paragraphs have occurred since the end of the reporting period (December 31, 2019) until the date these consolidated annual accounts were issued (March 30, 2020).

1.9 Information per business segment

The Group's activity is the granting of credit lines and direct loans. Therefore, in accordance with relevant legislation, it is considered that the information regarding the segmentation of operations into different lines of business at ICO is not relevant.

In addition, the Group develops its activity both inside and outside the Spanish territory. All operations are granted to fund Spanish interests.

1.10 'ICO Direct' lending activities

On June 2010, ICO launched a new business segment known as "ICO Direct", designed to provide financing to self-employed individuals, SMEs, and non-profit entities residing in Spain (which have been operating for more than one year) in order to make new investments in machinery, furniture, IT equipment and buildings. This business segment complements ICO's normal lending activities conducted through mediation lines to credit institutions and represents a broadening of the finance channels aimed at SMEs and self-employed individuals. ICO Direct line was renewed for 2011 and 2012, finishing at June 2012.

Transactions derived from ICO Direct activities were formally processed and administered by Banco Santander (BS) and Banco Bilbao Vizcaya Argentaria (BBVA). These credit institutions were awarded in the public tender held by ICO for this purpose.

The balance at December 31, 2019 of total net assets was of 1,028 thousand Euros (1,750 thousand Euros at December 31, 2018). Results generated in 2019 have amounted to 3,498 thousand Euros (4,586 thousand Euros in 2018).

1.11 ICO local corporation lending activity in 2011

The 2011 ICO-Local Corporation Facility started as a consequence of Royal Decree-Law designed to foster the stability of public accounts and social protection approved in July 2011 by the Spanish Council of Ministers. Its aim was to alleviate the problems of many self-employed professionals and small businesses that, in light of the struggling economy, were suffering from major problems settling their charging rights on supplies, works and services provided to local entities.

This facility was designed to provide local corporations (local and municipal governments) with liquidity to settle their pending invoices until April 30, 2011. It was mostly designed to help them repay debts with self-employed individuals and SMEs based on the age of certifications or documents.

ICO-Local Corporation Facility was in operation from July 2011 to November 2011. During this time, the facility enabled 1,029 local, regional and inter-island town councils through Spain to settle 222,975 outstanding invoices, accounting a total amount of 967 million Euros for supplies, constructions and services provided by 38,338 self-employed individuals and SMEs during 2011. The formalization and administration of the 2011 ICO-Local Corporation Facility operation is carried out through several EECC added to the project.

At December 31, 2019, the balance of these assets (classified as doubtful assets) has been of 3,669 thousand Euros (4,294 thousand Euros at December 31, 2018).

This line is guaranteed to the Institute with the Participation in State Income (PTE for its initials in Spanish) of the borrowing EELL. The reduction in the outstanding balance of this line, from the beginning of it and until December 31, 2019, under the PTE, is 61.68 million Euros (61 million Euros at December 31, 2018). Out of the 1,029 hosted entities to December 31, 2019, a total of 409 entities have had to resort to the PTE. At December 31, 2019, PTE deductions are still being claimed to 9 EELL, for an outstanding amount of 3.7 million Euros.

2. ACCOUNTING PRINCIPLES, POLICIES AND VALUATION METHODS APPLIED

During the development of the Group’s consolidated annual accounts for the year ended at December 31, 2019, the following accounting principles, policies and valuation methods have been applied:

a) Going concern principle

In preparing the financial statements, it has been considered that the management of the Institute will continue in a foreseeable future. Therefore, the application of accounting standards is not designed to determine the net asset value for the purpose of global or partial transfer in the event of liquidation.

b) Accruals principle

The present annual accounts, except in relation to the statements of cash flows, have been elaborated based on the current flow of goods and services, regardless of their date of payment or collection.

c) Other general principles

The annual accounts have been prepared under the historical cost approach, but modified due to the revaluation, if any, of land and buildings (only at January 1, 2004) (Note 13), available for sale financial assets and financial assets and liabilities (including derivatives) at fair value.

2.1 Shareholdings

2.1.1 Group Companies

Subsidiaries are those over which the Institute has control. It is understood that an entity controls an investee when it is exposed, or has rights, to variable returns about its involvement with the investee and has the ability to affect those returns through the power exercised over the investee.

Consideration as subsidiaries requires:

- 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 both 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.

These subsidiaries' annual accounts are consolidated with the Institute's in application of the global integration method, as defined on the regulation. Consequently, all balances derived from transactions between significant companies consolidated through this method have been eliminated in the consolidation process. The Institute, the Group's parent company, represents 99% of it.

Furthermore, shareholding by third parties, if any, in:

- The Group's equity is presented on caption "Minority shareholders" of the consolidated balance sheet, there not being any balance at December 31, 2019 and 2018.
- Consolidated results of the year are presented on caption "Results attributed to minority shareholders" of the consolidated profit and loss account, there not being any balance at December 31, 2019 and 2018.

The consolidation of results generated by subsidiaries acquired on a year only takes into account those related to the period comprised from the acquisition date and the year's closing date.

Annex I provides relevant information on these entities, all of which close their financial year at December 31.

2.1.2 Associates

Associates are entities over which the Institute holds significant influence, although they are not part of a decision unit together with the Institute nor are they under joint control. Normally, significant influence generally accompanies a direct or indirect shareholding of 20% or more of the voting rights.

Shareholdings in associates are presented in these consolidated annual accounts under the heading "Investments in subsidiaries, joint ventures and associates – Associates" in the consolidated balance sheet and are valued at acquisition costs, adjusted impairment that they may have undergone.

Results generated from operations between the associate and Group Companies are written off from the percentage represented by the Group's shareholding on the associate.

Results obtained in the year by the associate, after the abovementioned write-off, increase or reduce, as applicable, the value of the investment on the consolidated annual accounts. The amount of these results is registered on the caption of "Profit/(loss) in entities valued through the equity method" of the consolidated profit and loss account (Note 27).

Variations in the associate's valuation adjustments, following the acquisition date, are registered as increase or decrease of the investment value. The amount of these variations has been registered on caption "Other accumulated comprehensive income" as valuation adjustments of the consolidated equity.

Annex I provides relevant information on these entities.

2.2 Financial instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recognized in the balance sheet when the Group becomes part of the relevant contract, in accordance with the terms of that contract. Specifically, debt instruments such as loans and deposits in cash are recognized as from the date on which, the legal right to receive or the legal obligation to pay the cash is generated, respectively. In general, financial derivatives are recognized on the date they have been contracted.

Purchases and sales of financial assets arranged through conventional contracts, understood as those contracts under the parties' reciprocal obligations must be fulfilled with a timeframe established by regulations or market conventions and which may not be settled by differences, such as stock market contracts or currency forwards, are accounted for from the date on which the benefits, risks, rights and duties inherent in all ownership are transferred to the acquirer. Depending on the type of financial asset, purchased or sold, this may be the date of the contract or the date of settlement or delivery. Specifically, transactions effected in the foreign exchange spot market are recognized at the settlement date, transactions affected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions affected using debt instruments traded in Spanish securities markets are recognized at the settlement date.

2.2.2 Transfers and Disposal of financial instruments

Transfers of financial instruments are recorded taking into account the way in which risks and benefits associated with the transferred financial instruments are transferred, based on the following criteria:

- If risks and benefits are substantially transferred to third parties, as in unconditional sales, sales and repurchase at fair value at the date of the acquisition, sales of financial assets with a purchase option or sales gained issued deeply out of money, the securitization of assets in which the grantor retains no subordinate financing or grant any credit enhancement to the new owners, etc., the transferred financial instrument is removed off from the balance sheet, recognizing both any right or obligation retained or created as a result of the transfer.

- If risks and benefits associated with the transferred financial instrument are retained, such as sales of financial assets with repurchase agreements for a fixed price or the sale price plus interest, the loan contracts of values in which the borrower must return the same or similar assets, and so on., the transferred financial instrument is not removed off from the balance sheet and continues being measured with the same criteria used before the transfer. However, the associated financial liability by an equal amount to the consideration received is recognized, which is then valued at amortized cost, the transferred financial asset income, but not recognized and the new financial liability costs.

- If neither the risks and benefits associated with the transferred financial instrument are transferred nor substantially retained, such as sales of financial assets with a purchase option bought or sold that are neither inside nor outside money, securitizations in which grantor assumes a subordinated financing or other credit enhancements for a share of transferred assets, and so on, distinction is made between:

  - If the Entity does not retain control over the transferred financial instrument, in which case it is removed off from the balance sheet and recognizes any right or obligation retained or created as a result of the transfer.
  - If the Entity retains control over the transferred financial instrument, in which case it continues recognizing it on the balance sheet at an amount equal to its exposure to value fluctuations that can experience and a financial liability associated to an amount equal to the consideration received is recognized. Such liabilities are subsequently valued at amortized cost, unless it meets the requirements to be classified as financial liabilities at fair value through profit or loss. To calculate the amount of financial liabilities, the amount of its financial instruments (such as asset-backed securities and loans) that constitutes funding for the entity to which financial assets have been transferred will be deducted, in the exact amount as these financial instruments finance transferred assets specifically. The net amount between transferred assets and associated liabilities will be the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or fair value of the rights and obligations retained, if the transferred asset is measured at its fair value.

Therefore, financial assets are only removed from the balance sheet when the generated cash flows have been extinguished or when the implicit risks and benefits have been transferred to third parties.

Similarly, financial liabilities are only removed off the balance sheet when generated obligations have been extinguished or when they are purchased with the purpose of being cancelled or repositioned again.

2.2.3 Fair value and amortized cost of financial instruments

Financial assets

The fair value of a financial instrument at a given date is understood as the amount at which it may be purchased or sold at that same date between some informed parties, in an arm's length transaction. The most objective and common reference value for a financial instrument's fair value is the price that would be paid in an organized, transparent and deep market ("quoted price" or "market price").

In the absence of a market price for a specific financial instrument, its fair value is estimated on the basis of recent transactions involving similar instruments or, if failing this, using valuation techniques that have been accepted from the international financial community, taking into account the specific features of the instrument to be measured and, above all, the different types of associated risks.

Specifically, the fair value of a held-for-trading derivative financial instrument traded in organized, transparent and deep markets is the same as their daily market price. If, in exceptional circumstances, the price cannot be established on a given date, they are measured using similar methods to those applied to derivatives not traded in organized markets.

The fair value of derivatives not traded in organized markets, or traded in organized markets that are not deep or transparent, is equal to the sum of the future cash flows generated by the instrument, discounted at the measurement date ("present value" or "theoretical close"), employing valuation techniques accepted by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is the acquisition cost of a financial asset or adjusted liability (upward or downward) for capital and interest repayments and, when applicable, for the (higher or lower) portion (recognized in the profit and loss account applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortized cost of financial assets also includes impairment adjustments that may have occurred.

The effective interest rate is the discount rate that brings the initial value of a financial instrument exactly into line with total estimated cash flows through its residual life. In the case of fixed-income financial instruments, the effective interest rate is equal to the contractual rate defined on acquisition, adjusted for commissions and transaction costs that, in accordance with the provisions of Bank of Spain Circular 4/2017, must be included in the calculation of the effective interest rate The effective interest rate for variable-rate financial instruments is estimated in the same way as for fixed-income transactions, and is recalculated at each interest review date stated in the contract, taking into consideration changes in the transaction's future cash flows.

Other entities' shareholdings, whose fair value cannot be determined objectively and financial derivatives that have this instrument as its underlying assets and are settled by their delivery, are kept at cost, adjusted, where appropriate, by impairment losses experienced.

Variations in financial assets amounts are registered, in general, with a counterpart in the profit and loss account, differentiating the ones that are caused by the accrual of interest and similar items that are recorded in the heading of “Interest and similar income”, and those corresponding to other causes that are recorded by the net amount under the heading of “Gains or losses on financial assets and liabilities” of the profit and loss account.

However, changes in instruments’ value included under the portfolio of financial assets valued at fair value through other comprehensive income are temporarily recorded on caption “Other accumulated comprehensive income”, unless they come from exchange differences. Amounts on caption “Other accumulated comprehensive income” for changes in the fair value of these financial instruments remain part of net equity until they are removed from balance sheet’s assets where they are originated, moment when they are registered against a profit and loss account, unless they are financial instruments which valuation changes are never reclassified to the profit and loss account.

Also, value changes of the items included under the heading “Non-current assets held for sale” are recorded under “Other accumulated comprehensive income” as valuation adjustments in consolidated equity.

Related to financial instruments, valuations at fair value reflected in the annual accounts are classified using the following fair value ranking:

i) Level I: reasonable values are obtained from quoted prices (not adjusted) in active markets for the same instrument.
ii) Level II: fair values are obtained from valuation techniques in active markets for similar instruments, recent transaction prices or expected cash flows, or other valuation techniques in which all significant inputs are based, directly or indirectly, on observable market data.
iii) Level III: fair values are obtained from valuation techniques in which some significant inputs are not based on observable market data.

In financial assets designated as hedged items and hedging accounting, valuation differences are recorded taking into account the following criteria:

- In fair value hedges, the differences occurring in hedging items and in hedged items, in relation to the type of hedged risk are recognized directly in profit and loss account.
- Differences in valuation related to inefficiency of cash flows hedging and net foreign investments are sent directly to the profit and loss account.
- In cash flow hedges, the valuation differences arising on the effective hedging of the hedging items are temporarily registered under the heading of ‘Other accumulated comprehensive income’ as adjustment in net equity.
- In net foreign investments hedging, valuation differences arising on the effective hedging of the hedging items are temporarily registered under the heading of ‘Other accumulated comprehensive income’ as adjustment in net equity.

In the last two cases, valuation differences are not included in results until hedged item's gains or losses are recorded in the profit and loss account or until the hedged item's expiration date.

In interest rate risk's fair value hedges of a financial instruments portfolio, gains or losses that arise when assessing the hedging instruments are recognized directly in the profit and loss account, whereas the gains or losses in the amount covered fair value changes, regarding the hedged risk, are recognized in "Other accumulated comprehensive income" as adjustment in financial assets by macro hedging.

In interest rate risk cash flows hedging of a financial instruments portfolio, the effective part of the hedging instrument's value fluctuation is recorded temporarily in "Other accumulated comprehensive income" as adjustment in net equity until expected transactions occur, being then recorded in the profit and loss account. The ineffective portion of the hedging derivative's value fluctuation is directly registered on the profit and loss account.

<u>Financial liabilities</u>

Financial liabilities are recorded at amortized cost, as defined for financial assets in the note above, except in the following cases:

- Financial liabilities included in captions 'Financial liabilities held for trading' and 'Financial liabilities at fair value through profit or loss', are recorded at fair value, as defined for financial assets in the note above. Financial liabilities covered by fair value hedging operations are adjusted, being registered those fair value variations in relation to the hedged risk covered by the hedge operation.
- Financial derivatives whose underlying assets are equity instruments whose fair value cannot be determined in a sufficiently objective and be settled by delivery of these contracts are valued at cost.

Financial liabilities amount's variations are recorded, in general, offset by the profit and loss account, differentiating between those that are caused by interest accrual and similar items that are recorded in the heading of "Interest and similar income", and those corresponding to other causes, which are recorded under the heading 'Gains or losses on financial assets and liabilities measured at fair value through profit or loss' of the consolidated profit and loss account.

Financial liabilities designated as hedged items and hedging accounting valuation differences, are recorded taking into account the above criteria for financial assets, included in the previous note.

2.2.4 Classification and valuation of financial assets and liabilities

Financial instruments are classified into the following categories in the Institute's balance sheet:

- Central bank and credit institutions deposits, which are cash balances and amounts held in Bank of Spain, other central banks and other credit institutions.
- Financial assets and liabilities at fair value through profit or loss: this category is made up with financial instruments classified as trading portfolio and other financial assets and liabilities classified at fair value through profit or loss:

  - Financial assets are those financial assets included in the trading portfolio acquired in order to be realised in the short term or which form part of a portfolio of identified financial instruments for which there is evidence of recent actions taken to obtain short-term gains. Also, derivative financial instruments not designated as hedge instruments are considered as part of this category, including instruments segregated from hybrid financial instruments in accordance with applicable accounting rules.

  - Financial liabilities are those liabilities included in the trading portfolio issued in order to be repurchased in the near future or that form part of a portfolio of financial instruments identified or jointly managed for which there is evidence of recent actions to obtain short-term gains, short positions in securities arising from sales of assets acquired under non-optional repurchase agreements and loans of securities, and derivative financial instruments not denominated as hedge instruments, including segregated from hybrid financial instruments. The fact that a financial liability is used to finance trading assets does not entail its own inclusion in this category.

  - Other financial assets or liabilities at fair value through profit or loss are the following:

    - Financial assets that, not being included in the Trading portfolio, are considered as hybrid financial assets and are valued at fair value, and those that are jointly managed with Liabilities under insurance contracts valued at their fair value or with financial derivatives whose purpose and effect is to reduce its exposure to fluctuations in fair value or which are jointly managed with financial liabilities and derivatives in order to reduce the overall exposure to interest rate risk.

    - Financial liabilities designated at its initial recognition by the entity or when recognizing them more relevant information is obtained because:

      - With it, inconsistencies in the recognition or appreciation arising from the asset or liabilities valuation or recognizing the gains and losses will be deleted or significantly reduced, using different criteria.

- A financial liabilities or both financial assets and liabilities group is managed and their performance is evaluated based on their fair value, according to a risk management or investment information strategy. Documented information about groups is issued also on the basis of the fair value to the key Management staff.

- Assets valued at amortized cost. This category includes the following:

  - Debt securities with fixed maturities and cash flows of a determined or determinable amount. Debt securities included in this category are initially valued at fair value, adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognized in the profit and loss account using the effective interest method, defined in applicable accounting legislation as of Bank of Spain, 4/2018. They are subsequently valuated at amortized cost, based on the effective interest ratios.

  - Loans and receivables: this category includes financing provided to third parties arising from the ordinary credit and loan activities carried out by the Institute and debts incurred by asset buyers and by service users. It also includes financial lease transactions in which entities act as lenders.

  Financial assets included in this category are initially carried at fair value, adjusted for commissions and transaction costs directly attributable to the acquisition of the financial asset and which, under applicable accounting legislation as of Bank of Spain, 4/2018, must be recognized in the profit and loss account using the effective interest rate method. Once these assets are acquired, they are valued at amortized cost.

  Assets acquired at discount are registered for the amount paid and the difference between the repayment value and that cash amount is recognized as a financial income, applying the effective interest rate method until maturity.

  The accrued interest for assets included in this category, calculated using the effective interest rate method, is recognized in the caption “Interest and similar income” in the profit and loss account. Exchange differences on securities denominated in foreign currency, other than the euro included in this portfolio, are accounted as it is mentioned in Note 2.4. Possible impairment losses on these securities are recorded as indicated in Note 2.7. Debt securities included in fair-value hedging are recorded as mentioned in Note 2.3.

- Financial assets at fair value through other comprehensive income: this category includes debt securities not classified as instruments at amortized cost or at fair value through profit or loss, owned by the Institute, as well as equity instruments owned by the Institute corresponding to entities which are not subsidiaries, joint ventures or associated entities, which have not been classified as at fair value through profit or loss.

- Instruments included in this category are initially measured at fair value, adjusted for transaction costs directly related to the acquisition of the financial asset, which are recognized in the profit and loss account using the effective interest rate method defined in applicable accounting legislation as of Bank of Spain, 4/2018, to maturity, unless the financial assets have no fixed maturities. In such cases, they are taken to the profit and loss account, when they become impaired or are written off the balance sheet. Subsequently, financial assets included in this category are valued at fair value.

- Nonetheless, equity instruments whose fair value cannot be determined in a sufficiently objective way are valued at cost in these annual accounts, net for impairment calculated as explained in Note 2.7.

- Products corresponding to interests or dividends accrued from these financial assets are registered with counterpart on captions “Interests and similar income” (calculated using the effective interest rate method) and “Dividends income” in the profit and loss account, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are accounted as mentioned in Note 2.4. Changes in fair value of financial assets covered by fair-value hedges are stated as mentioned in Note 2.3.

- The remaining changes in the fair value of financial assets from acquisition are registered with counterpart in the Institute’s equity under caption “Other accumulated comprehensive income” as valuation adjustments, until the financial asset is written off, moment at which the balance registered on such caption is booked on the profit and loss account under caption “Profit and loss for write-off of financial assets and liabilities valued at fair value through profit or loss”.

- Financial liabilities at amortized cost: This category of financial instruments includes financial liabilities that are not included in any of the previous categories.

  Financial liabilities included in this category are initially carried at fair value, adjusted for transaction costs directly attributable to the issue of the financial liability, which will be recognized in the profit and loss account using the effective interest rate method, defined in applicable accounting legislation (Bank of Spain Circular 4/2017) to maturity. Subsequently they are measured at amortized cost, calculated by applying the effective interest rate method defined in applicable accounting legislation (Bank of Spain Circular 4/2017).

The interest accrued on these assets, calculated using the effective interest rate method, is recognized in the caption "Interest and similar charges" in the profit and loss account. Exchange differences on securities denominated in foreign currency, other than the euro included in this portfolio, are accounted as mentioned in Note 2.4. Financial liabilities included in fair-value hedging are recorded as mentioned in Note 2.3.

Nevertheless, those financial instruments that must be classified as non-current assets available for sale, in accordance with the provisions of Rule Thirty-Four of Circular 4/2017, Bank of Spain, are included in the annual accounts as explained in Note 2.16.

The classification of financial instruments in these categories will be based in two elements: (i) the entity's business model to manage financial assets; (ii) the characteristics of financial assets' contractual cash flows:

- A financial asset is classified on the portfolio of financial assets at amortized cost when two conditions are met: (i) it is managed with a business model which objective is to hold financial assets to perceive contractual cash flows; and (ii) contractual conditions lead to cash flows at specified dates, which always are payments of principal and interests on the amount of the outstanding principal;

- A financial asset is classified on the portfolio of financial assets at fair value through other comprehensive income when the two following conditions are met: (i) it is managed with a business model which objective combines the perception of the financial assets' contractual cash flows and the sale; (ii) contractual conditions lead to cash flows at specified dates, which always are payments of principal and interests on the amount of the outstanding principal;

- A financial asset is classified on the portfolio of financial assets held for trading or financial assets obligatorily at fair value through profit or loss, as long as, due to the entity's business model for their management or to the characteristics of its contractual cash flows, it cannot be classified in any of the portfolios above.

  Nonetheless, the entity shall opt, at initial recognition and in an irrevocable manner, for including on the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments which should not be classified as held for trading and which would be classified as financial assets obligatorily at fair value through profit or loss. This option will be exercised on an instrument basis.

  Also, the entity shall opt, at initial recognition and in an irrevocable manner, for designating any financial asset at fair value through profit or loss if thus valuation or recognition incoherencies are eliminated or significantly reduced (also called «accounting asymmetry») which would otherwise derive from the valuation of assets or liabilities, or recognition of profit or loss, on different bases. When there are accounting asymmetries, this option shall be exercised regardless of the entity's business model for its management and the characteristics of the contractual cash flows.

Additionally, and regardless of the above, the entity shall opt, at initial recognition or subsequently, for designating any financial asset as belonging to the portfolio of financial assets at fair value through profit or loss, as long as requirements established on Circular 4/2017 are met.

Reclassifications between financial instruments portfolios are made exclusively, according to the following assumptions:

- When an entity changes its business model for the management of financial assets, it will reclassify all financial assets according to the following sections. Such reclassification will be prospectively performed from the reclassification date, not requiring a restatement of previously recognized profit, loss or interests. In general, changes in the business model are rare.

- If the entity reclassifies a debt instrument from the portfolio of amortized cost into fair value through profit or loss, the entity must estimate its fair value at reclassification date. Any profit or loss generated for the difference between the previous amortized cost and the fair value will be recognized on the profit and loss account. If the entity reclassifies a debt instrument from the portfolio of fair value through profit or loss into amortized cost, the asset's fair value at reclassification date will be its new gross carrying amount.

- If the entity reclassifies a debt instrument from the portfolio of amortized cost into fair value through other comprehensive income, the entity must estimate its fair value at reclassification date. Any loss or profit generated for differences between the prior amortized cost and the fair value will be recognized in other comprehensive income. The effective interest rate and the estimate of expected credit losses will not be adjusted as a consequence of the reclassification.

- If a debt instrument is reclassified from the portfolio of fair value through other comprehensive income into amortized cost, the financial asset will be reclassified at the fair value at reclassification date. The accumulated profit or loss at reclassification date in other accumulated comprehensive income of equity will be cancelled using as counterpart the asset's carrying amount at reclassification date. Thus, the debt instrument will be valued at reclassification date as if it had been valued at amortized cost. The effective interest rate and the estimate of expected credit losses will not be adjusted as a result of the reclassification.

- If the entity reclassifies a debt instrument from the portfolio of fair value through profit or loss to fair value through other comprehensive income, the financial asset will continue being valued at fair value, without modification of the registration of previously registered value changes.

- If the entity reclassifies a debt instrument from the portfolio of fair value through other comprehensive income into fair value through profit or loss, the financial asset will continue being valued at fair value. The profit or loss previously accumulated in «other accumulated comprehensive income» of equity will be transferred to profit or loss of the period at reclassification date.

- When the investment in a subsidiary, joint venture or associate is no longer classified as such, the retained investment, if any, will be measured at its fair value at reclassification date, recognizing all profits or losses generated for the difference between its carrying amount prior to the reclassification and such fair value in profit or loss or in other comprehensive income, as applicable, based on the subsequent valuation of the retained investment.

- The investment in an entity prior to its qualification as subsidiary, joint venture or associate will be valued at fair value until the date when control, joint control or significant influence is obtained. At this last date, the entity must estimate the fair value of the prior investment, recognizing any profit or loss generated for the difference between its carrying amount prior to the reclassification and such fair value, in profit or loss or in other comprehensive income, as applicable. Where applicable, the accumulated profit or loss in other accumulated comprehensive income of equity will be maintained until the investment is written off from the balance sheet, moment at which it will be reclassified into an item of reserves.

- The entity will not reclassify any financial liability.

- For the purpose of sections above, changes derived from the following circumstances are not considered as reclassifications:

    - When an element that previously was a designated and efficient hedging instrument in a cash flow hedging or net investment hedging in a foreign business ceases complying with requirements to be considered as such.
    - When an element becomes a designated and efficient hedging instrument in a cash flow hedging or net investment hedging in a foreign business.
    - When there are changes in the valuation of financial instruments because they are designated, or cease being designated, at fair value through profit or loss.

There has been no reclassification during 2019. During 2018, the Group registered reclassifications among portfolios included on Notes 8 and 9 of these annual accounts.

2.3 Financial derivatives

Financial derivatives are instruments that provide a loss or gain, and allow, under certain conditions, the compensation of the totality or part of the credit and / or market risks associated to transactions and balances, using interest rate and certain rates, individual securities prices, exchange rate cross-currency or other similar references as underlying assets. The Institute uses financial derivatives traded in bilateral organized or negotiated markets being the counterpart out of organized markets (OTC).

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign and market exchange rate, among others. When these operations meet certain requirements of the Rules Thirty-first and thirty-second of Circular 4/2017, Bank of Spain such operations are considered as “hedging”.

When the Group designates a transaction as a hedge, it does so from the initial moment of the transactions or the instruments included in those hedges, that hedge being appropriately documented. When documenting these hedging transactions the instrument or instruments hedged and hedging instrument or instruments are properly identified together with the nature of the risk which is intended to be covered and the criteria or methods followed by the Group to measure the efficiency of the hedge over its life, taking into account the risk that it must cover.

The Group only applies hedge accounting for hedges that are considered highly effective over their entire lives. A Hedge is considered highly effective if during the envisaged term any changes in fair value or cash flows attributed to the risk covered in the hedging of the financial instrument or instruments hedged, are virtually fully offset by the changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments.

In order to measure the efficiency of hedging defined as such, the Group analyzes whether from the beginning until the end of the defined hedging period, changes in fair value or cash flows of the hedged item, which may be attributed to the hedged risk may prospectively, be expected to be offset almost completely by changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments and that retrospectively the results of the hedge have fluctuated in a measurement range of 80% to 125% with regards to the results of the hedged item.

Hedging transactions carried out by the Group are classified into the following categories:

- Fair-value hedges: They cover the exposure to changes in the fair value of financial assets and liabilities or firm commitments, or an identified portion of these assets, liabilities or commitments, attributable to a specific risk, provided that they affect the consolidated profit and loss account.

- Cash-flow hedges: they cover changes in cash-flow that are attributable to a specific risk associated with a financial asset or liability or a highly-probable planned transaction, which may affect the consolidated profit and loss account.

Measurement differences are recorded in accordance with the following criteria, when referring specifically to financial instruments designated as hedged components and book hedges:

- Fair-value hedges: They cover the exposure to changes in the fair value of financial assets and liabilities or firm commitments, or an identified portion of these assets, liabilities or commitments, attributable to a specific risk, provided that they affect the consolidated profit and loss account.
- Cash flows hedges: valuation differences arisen on the efficient hedging portion of hedging elements are transitorily registered on caption “Other accumulated comprehensive income” as valuation adjustments for cash flows hedged. Hedged financial instruments in this kind of hedging operations are registered according to criteria explained on Note 2.2 without any modification for the fact of being considered as such hedged instruments.

In the last case, measurement differences are not recognized as results until the gains or losses on the hedged item are recorded in the profit and loss account, or until maturity.

Differences in the valuation of the hedge instrument, corresponding to the inefficient part of the hedging cash flow operations, are directly registered as “Gains or losses on financial assets and liabilities measured at fair value” in the consolidated profit and loss account.

The Group interrupts hedge accounting when the hedging instrument expires or is sold, when a hedge no longer meets the criteria for hedge accounting or when the transaction ceases to be classed as a hedge.

Where fair-value hedge accounting is interrupted as stated in the preceding paragraph, in the case of hedged items carried at amortized cost, the value adjustments made for hedge accounting purposes are recognized in the profit and loss account until the maturity date of the hedged items, applying the effective interest rate as recalculated on the interruption date.

In the situations in which a cash-flow hedge transaction is interrupted, the accumulated gain or loss from the hedge is registered under the heading “Other accumulated comprehensive income” in the balance sheet and it will remain under this heading until the planned hedge transaction takes place, time at which it will be taken to the consolidated profit and loss account, or the cost of acquiring the asset or liability to be recorded will be adjusted, in the event that the hedged component is a planned transaction that culminates with the recording of a financial asset or liability. In the event of planned transactions, when expected not to take place, the entry made under “Other accumulated comprehensive income” relating to that transaction is immediately recognized in the profit and loss account.

2.4 Foreign currency transactions and functional currency

The Group's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the euro are considered denominated in foreign currency.

Set out below are the financial assets and liabilities denominated in foreign currency held by ICO, as Group's parent company, at December 31, 2019 and 2018 (in thousands of Euros):

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Pounds Sterling	194 026	183 298	193 781	182 125
US Dollars	1 873 858	6 210 184	1 475 765	5 764 567
Swiss Francs	20	280 405	44	373 200
Japanese Yens	909	279 051	908	166 865
Other currencies	183 589	46 766	157 794	397 137
	2 252 402	6 999 704	1 828 292	6 883 894

The equivalent value in Euros of assets and liabilities denominated in foreign currency (in thousands of Euros), classified by nature, recorded by the Institute, at December 31, 2019 and 2018 is as follows:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Loans to Credit Institutions	793 094	-	448 477	
Loans to Customers	1 458 254	-	1 378 756	
Other financial assets	1 053	-	1 059	
Deposits in Credit Institutions	-	1 667 163	-	1 173 697
Debt securities issued	-	5 841 744	-	5 709 176
Other financial liabilities	-	651	-	1 021
	2 252 401	7 509 558	1 828 292	6 883 894

When initially recognized, debtor and creditor balances accounted in foreign currency are converted to the functional currency using the spot exchange rate at the date of recognition, understood as the exchange rate for an immediate delivery. After initial recognition, the following rules are applied to translate balances registered in foreign currency to the functional currency:

i) Monetary assets and liabilities are translated at the year-end exchange rate, understood as the average spot exchange rate at the date to which the annual accounts refer.
ii) Non-monetary items valued at historic cost are translated at the exchange rate on the date of acquisition.

iii) Non-monetary items measured at fair value are converted to the exchange rate on the date its fair value is determined.

iv) Income and expenses are converted by applying the exchange rate existing on the transaction date. Nonetheless, the average exchange rate for the period is used for all transactions carried out in that period, unless there have been significant fluctuations. Depreciation/ amortization are translated at the exchange rate applied to the relevant asset.

Exchange differences arising from conversion of debtor and creditor balances denominated in foreign currency are generally recorded in the consolidated profit and loss account. Nonetheless, in the case of exchange differences that arise from non-monetary items measured at fair value, for which the fair-value adjustment is recorded under "Other accumulated comprehensive income", the component of the exchange rate relating to the revaluation of the non-monetary element is broken down.

Exchange rates used by the Group to convert balances denominated in the main foreign currencies in which it operates are the market rates at December 31, 2019 and 2018 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising from the conversion of receivables and payables denominated in foreign currency arises up to 4,928 thousand Euros profit at December 31, 2019 (49,884 thousand Euros profit at December 31, 2018).

2.5 Recognition of income and expenses

Below, there is a summary of the most significant accounting policies used by the Group to recognize income and expenses:

2.5.1 Interest income and expense, dividends and similar items

In general, interest income and expense and similar items are accounted on an accruals basis, applying the effective interest rate method defined in applicable legislation. Dividends received from other companies are recognized when consolidated companies become entitled to receive them.

2.5.2 Commissions, fees and similar items

Income and expense related to commissions and similar fees, which should not be included in the calculation of the effective interest rate of operations and/or do not form part of the acquisition cost of financial assets or liabilities, except for those carried at fair value through profit or loss, are recognized in the consolidated profit and loss account using different methods depending on their nature. The most significant methods used are explained below:

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through profit or loss are recognized in the profit and loss account at the payment date.

- Amounts arising from long-term transactions or services are recognized in the profit and loss account over the term of the transactions or services.
- Amounts relating to a one-off event are recorded in the profit and loss account when that event takes place.

2.5.3 Non-financial income and expenses

These amounts are accounted on an accrual basis.

2.5.4 Deferred collections and payments

They are registered on accounts by the amount resulting from financially updating at market rates expected cash flows.

2.6 Offsetting of balances

Only debtor and creditor balances arising from transactions which, under contract or legislation, provide the possibility to offset and exist in the company, to be settled at their net amount, or simultaneously realised and paid, are offset and therefore presented in the consolidated balance sheet at their net amount.

2.7 Impairment of financial assets

The carrying value of financial assets is generally adjusted against the consolidated profit and loss account when there is objective evidence that there are impairment losses. This is the case where:

- For debt instruments, understood as loans and debt securities, when, following their initial recognition, there is an event or combined effect of several events which have a negative impact on the relevant future cash flows.
- For equity instruments, when following their initial recognition, there is an event or the combined effect of several events, making it impossible to recover their carrying value.

As a general rule, impairment financial instruments value correction is charged to the profit and loss account of the period in which such impairment takes place and the recovery of previously recorded impairment losses, if takes place, are recognized in the profit and loss account of the period during which the deterioration is eliminated or reduced. In the event that the recovery of any amount in respect of the impairment recorded is considered impossible, such impairment is written off from the balance sheet, although the Group may carry out the necessary actions to attempt to secure collection until the definitive extinguishment of its debt claims due to lapsing, remission or other reasons.

Debt instruments and contingent risks portfolios, regardless of their owner, warranty or instrumentation, are analyzed to determine the credit risk to which the Group is exposed and to estimate hedging requirements for impairment in value. For the annual accounts preparation, the Group classifies its operations in terms of its credit risk by analyzing, separately, the insolvency risk due to the customer and country risk to which they are exposed.

Debt instrument's future cash flows estimated are all amounts, principal and interest, the Group believes will receive during the instrument's life. All relevant information which provides data about the possibility of future recovery of contractual cash flows that is available at the time of annual accounts elaboration is considered in this estimate. Also, in estimating instruments with security's future cash flows, are taken into account the flows that would result from its realization, less the amount of costs for its acquisition and subsequent sale, irrespective of the probability of the guarantee.

In the calculation of the present value of estimated future cash flows, the instrument's original effective interest rate is used as the update rate, if contract rate is fixed, or the effective interest rate on the date to which the statements relate determined according to financial conditions of the contract, if variable.

In the case of debt instruments measured at amortized cost, the amount of impairment losses incurred is equal to the negative difference between the carrying value and the current value of future estimated cash flows, using the original effective interest rate as the adjustment rate, if that rate is fixed, or the effective interest rate at the date of the annual accounts calculated in accordance with the terms of the contract, when a variable ratio, in the case of listed debt instruments, market value may be used as a substitute, provided that it is enough reliable to consider it to be representative of the value the Group will recover.

Objective evidence of impairment will be determined individually for all debt instruments that are significant, and individually or collectively for the groups of debt instruments which are not individually significant. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it will be analyzed solely on an individual basis to determine whether it is impaired and, if appropriate, estimate the impairment loss.

The collective assessment of a group of financial assets to estimate impairment losses is as follows:

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor ability to pay all amounts, principal and interest, in accordance with contractual terms. The characteristics of credit risk, which are taken into account in order to group together assets, are, for example, the type of instrument, the debtor's sector of activity, the geographic area of activity, type of guarantee, age of amounts overdue and any other factor that may be relevant when estimating future cash flows.

- Future cash flows in each group of debt instruments are estimated based on the Group's experience of historical losses for instruments with similar credit risk characteristics to those of the respective group, following the necessary adjustments to adapt historical data to current market conditions.
- Impairment losses in each group are the difference between the carrying value of all the group's debt instruments and the present value of its estimated future cash flows.

Debt instruments not measured at fair value through changes in the consolidated profit and loss account, contingent risks and commitments, are classified based on the insolvency risk attributable to the client or the transaction, in the categories defined by the Annex IX from the Bank of Spain's Circular 4/2004. For debt instruments not classified as normal risk, estimates are made regarding the specific impairment hedges necessary based on the criteria established in the above mentioned regulation, bearing in mind the age of the unpaid amounts, the guarantees provided and the client's financial situation and, if appropriate, the guarantors.

Similarly, these financial instruments are analyzed to determine the credit risk deriving from country risk, understood to be the risk affecting clients resident in a certain country due to circumstances other than normal commercial risks.

In addition to the specific impairment hedges indicated above, the Group hedges against losses inherent to debt instruments not measured at fair value through consolidated profit or loss and contingent risks classified as normal through group hedges, calculated based on historical impairment and other familiar circumstances at the time of evaluation that are related to inherent losses incurred at the date of the annual accounts, calculated using statistical methods, that have yet to be assigned to specific transactions.

In this sense, the Group has used the parameters established by the Bank of Spain, based on its sector experience and information, which determine the method and amount to be used to cover inherent impairment losses incurred in debt instruments and contingent risks classified as normal risks, which are changed regularly on the basis of the development of the data in question. This method of determining the hedging for impairment losses is based on the application of certain percentages set in the applicable accounting legislation, which vary based on the risk classification of financial instruments as established in the applicable regulation, and which change depending on the risk classification of the financial instruments established by the abovementioned regulation.

In general, impairment of debt instruments is calculated by applying the following percentages to the outstanding risk not covered by the amount to be recovered from the effective collateral, based on the risk segment to which the operation belongs and the seniority of past due amounts:

	From 90 days to 6 months	From 6 to 9 months	From 9 months to 1 year	From 1 year to 15 months	From 15 to 18 months	From 18 to 21 months	More than 21 months
Non-credit institutions and individual entrepreneurs							
Special Financing							
Construc. and property develop.	60	70	80	85	90	100	100
Construc. civil work	55	65	70	75	85	90	100
Other espec. financing	50	60	70	85	90	100	100
Non-special Financing							
Large companies	50	60	70	85	90	100	100
SMEs	55	65	70	80	85	90	100
Individual entrepreneurs	30	40	50	60	75	90	100
Houses							
House purchase							
Main residence unpaid (LTV) <80% guarantee	40	45	55	65	75	90	100
Main residence unpaid (LTV) >80% guarantee	40	45	55	65	75	90	100
Secondary residence	40	45	55	65	75	90	100
Consumer credit (inc credit card debts)	50	60	70	80	90	95	100
Other	50	60	70	80	90	95	100

Generic provisions for operations classified as normal risk, will be different to that calculated for regular risk in the watch-list. Both are calculated by applying the following percentages to the outstanding exposure not covered with effective guarantees:

	Normal risk	Normal risk in watch-list
Non-credit institutions and individual entrepreneurs		
Special Financing		
Construc. and property develop.	1,9	27,6
Construc. civil work	1,9	18,8
Other especial financing	0,5	7,5
Non-special Financing		
Large companies	0,5	7,5
SMEs	0,9	12,7
Individual entrepreneurs	1,1	11,6
Home		
Home purchase		
Main home unpaid (LTV) <80% guarantee	0,6	13,0
Main home unpaid (LTV) >80% guarantee	0,6	13,0
Secondary residence	0,6	13,0
Consumer credit	1,5	16,0
Which from: credit card debts	0,8	9,0
Other	1,5	16,0

In estimating effective collateral, for the purpose of calculating hedges, the following estimated discounts on the reference value of such collateral will be applied:

TYPE OF REAL GUARANTEE	Discount over reference value (%)

Mortgage guarantees (first charge)	
Buildings and finished building elements	
Homes	30
Offices, commercial premises and warehouses	40
Other	45
Urban and developable land ordered	40
Other immovable property	45
Posted collateral of financial instruments	
Money deposits	0
Other marketable financial instruments	10
Other non-marketable financial instruments	20
Other real guarantees (for example. second mortgages, movable assets)	50

In the case of real estate assets foreclosed or received in payment of debts, for the purposes of valuation of the hedging that may correspond, the following discounts will be applied on the reference value for said assets:

TYPE OF FORECLOSED PROPERTIES	**Discount over reference value (%)**
Buildings and finished building elements	
Homes	25
Offices, commercial premises and warehouses	27
Other	30
Urban and developable land ordered	30
Other immovable property	35

The recognition in the consolidated profit and loss account of the accrued interests on the base of the contractual terms is interrupted for all the instruments of debt qualified individually and for those that had calculated collective losses because of the deterioration for having amounts conquered with an antiquity top to three months.

The amount of impairment losses incurred in debt securities and equity instruments included under Financial assets at fair value through other comprehensive income is equal to the positive difference between their acquisition costs, adjusted to any repayment of the principal, and their fair value less any impairment loss previously recognized in the profit and loss account

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses, recognized directly under ‘Other accumulated comprehensive income’ as adjustment in net equity, are recorded immediately in the profit and loss account. If, subsequently, all or part of the impairment losses are recovered, the amount involved is recognized, in the case of debt securities, in the profit and loss account for the recovery period, and, in the case of equity instruments, under ‘Other accumulated comprehensive income’ as adjustment in net equity.

For debt and equity instruments classified under non-current assets held for sale, losses recorded previously under equity are considered to be realised and are recognized in the profit and loss account at the date of their classification.

For shareholdings in Associates, joint ventures and subsidiaries, the Institute estimates impairment losses by comparing the recoverable amount with their carrying value. Such impairment losses are recorded in the profit and loss account for the period in which they arise while subsequent recoveries are recorded in the profit and loss account for the recovery period.

In the case that the probabilities of recovery any amount recorded, like impairment, were considered impossible, these are eliminated from the balance sheet, although the Institute could carry out necessary actions to try to recover, as long as, their rights do not extinguish permanently by expiration, cancellation or other causes.

2.8 Financial guarantees and related provisions

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the creditor for the loss incurred when a debtor fails to perform specific payment obligation under the conditions, original or amended of an debt instrument, regardless of their legal form, which can be, inter alia, of a surety, financial guarantee insurance contract or credit derivative.

The issuer of financial guarantee contracts recognizes them under the heading "Other financial liabilities" at fair value plus transaction costs, which are directly attributable to its issuance, except for contracts issued by insurance companies.

Initially, the fair value of financial guarantee contracts issued to a third party not connected within a single transaction in mutual independence conditions, is the premium received plus, presents cash flows value to receive, using a similar interest rate to the financial assets issued by the Group with similar term and risk. Simultaneously, it will be recognized as a receivable asset the present value of future cash flows to be received at the rate of interest mentioned above.

Subsequent to the initial recognition, the contracts are treated according to the following criteria:

i) The financial guarantee's commissions or bonuses value to receive is updated by recording the difference in the profit and loss account as financial income.
ii) The value of financial guarantee contracts that have not been qualified as doubtful, is the initially recognized amount less the part charged to the profit and loss account on straight-line basis over the expected life of the guarantee or by other criteria, provided that this more accurately reflects economic risks and benefits of the warranty's perception.

The classification of financial guarantee contracts as doubtful will imply the respective hedging action under the heading of “Provisions for contingent exposures and commitments”.

2.9 Accounting for leases

2.9.1 Financial leases

Financial leases are those in which all the risks and rewards substantially carried by the leased asset are transferred to the lessee.

Whenever the Group acts as lessor of an asset in a financial lease transaction, the sum of the present values of the amount that will be received from the lessee plus the guaranteed residual value, usually the purchase option price when the lease terminates, are recorded as financing provided to third parties. It is therefore included in “Loans and receivables” in the consolidated balance sheet, in accordance with the nature of the lessee.

When the Group acts as the lessee in a financial lease transaction, the cost of the leased assets is recorded in the consolidated balance sheet, on the basis of the nature of the asset leased and a liability is carried in the same amount, which will be the lower between the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if appropriate, the purchase option exercise price. These assets are depreciated at similar rates to those applied to the Group’s property, plant and equipment for own use (Note 2.12).

In both cases, the financial income and expense on financial leases is credited and charged, respectively, to the consolidated profit and loss account captions “Interest and similar income” and “Interest and similar charges”, applying the effective interest rate method on the lease to estimate its accrual, calculated according to the applicable regulations.

2.9.2 Operating leases

In operating leases, ownership of the leased asset and substantially all risks and rewards of ownership are retained by the lessor.

Where consolidated companies act as the lessor in operating lease agreements, the acquisition cost of the leased asset is registered under “Property, plant and equipment” in “Property investments” or “Other assets assigned under operating lease”, depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use. The income from lease contracts is recognized in the consolidated profit and loss account on a straight-line basis in the caption “Other operating income”.

When the Institute acts as lessee in operating lease agreements, a lease liability is included at the current value of payments to be performed (fixed, variable, exercise of call option, and others), as the contract's initial valuation, and a right-of-use asset valued at cost.

2.10 Personnel costs

2.10.1 Short-term remunerations

Short-term remunerations to employees are payments made within twelve months, following the end of the year in which the employees have rendered services. This remuneration is measured, without any adjustment, at the amount payable for the services received and recorded, in general, as personnel costs for the year and a liability accrual account, which is recorded for the difference between the total expense and the amount already satisfied.

2.10.2 Post-employment commitments

Pension commitments entered into by the Group, referring to those acquired by the Institute with regards to employees, are reflected in the collective wage agreement in force and correspond to defined contribution commitments.

The Institute's employees are members of the Joint Employment System Pension Plan offered by the State Administration and regulated by the Pension Plan and Fund Regulation Act approved by Legislative Royal Decree 1/2002 (29 November) and enabling regulations approved by Royal Decree 304/2004 (20 February), which is included in the BBVA Empleo Pension Fund, managed by Gestión de Previsión y Pensiones, Entidad Gestora de Fondos de Pensiones and deposited at BBVA.

As defined contribution commitments, the Institute has assumed annual contributions for employees that have rendered services for more than two years at 1 May of each year, regardless of whether they are career civil servants or interim government employees, contracted personnel, temporary employees or senior management. The following parameters are taken into account when calculating the annual contribution:

- The professional group to which the employee pertains.
- Length of service (understood to be the number of three-year periods the employee has worked in the Administration, regardless of the contractual arrangement).

Amounts to be contributed are those approved in the General State Budget for each year. Under the heading "Personnel costs" of the consolidated profit and loss account, there is no cost registered for this year at December 31, 2019 and neither for the previous one at December 31, 2018.

2.10.3 Death and disability benefits and retirement bonuses

Commitments assumed with personnel for retirement bonuses and death or disability commitments prior to retirement and other similar items, are estimated by calculating the present value of legal and implicit obligations at the date of the annual accounts, after deducting any actuarial loss, less any actuarial gain, the cost of past services yet to be recognized and the fair value of the assets that cover the commitments, including insurance policies. The entire cost of past services and any actuarial gains or losses are immediately recognized.

At December 31, 2019 a provision was recorded by the Group for post-employment commitments amounting to 579 thousand Euros (919 thousand Euros at December 31, 2018).

2.10.4 Severances

Severances are recorded under the heading “Personnel costs” and the accompanying consolidated profit and loss account crediting the accounts “Pension provisions and similar obligations” under the heading “Provisions” in the accompanying consolidated balance sheet, only when the Group is demonstrably committed to terminating an employee or group of employees before their normal retirement date, or to pay remuneration as a result of an offer made as an incentive for the voluntary rescission of the employees.

At December 31, 2019 and 2018, the Group has not recorded any provisions regarding this aspect as there is no plan or agreement that would require such an allocation.

2.11 Corporate Income Tax

Corporate income tax is considered as an expense and is recorded under the heading of “Income tax” of the consolidated profit and loss account.

Income tax expense for the year is calculated as tax payable on taxable income for the year, adjusted for variations during the year in asset and liability balances arising from temporary differences, tax credits and allowances, and any tax-loss carry forwards (Note 23).

The Group considers that there is a temporary difference when there is a difference between the carrying amount and the taxable amount of an asset or liability. The amount attributed to an asset or liability for tax purposes is considered the tax base. A taxable temporary difference is understood as the one which will generate a future obligation for the Group to pay to the relevant Administration. A deductible temporary difference is understood to be the one which will generate for the Group some reimbursement right or a decrease in the payment to be made to the relevant administration in the future.

Tax credits and allowances and tax credits for tax-loss carry forwards are amounts that, though generated on completion of an activity or obtainment of a result, are not applied for tax purposes in the relevant tax return until the conditions stipulated in tax legislation are fulfilled, and providing the Institute the probability of application in future years.

Current tax assets and liabilities are amounts that the Institute expects to recover from or pay to the corresponding tax authorities within 12 months, from the date on which they were recognized. Deferred tax assets and liabilities are amounts that the Institute expects to recover from or pay to the corresponding tax authorities in future years.

Deferred tax liabilities are recognized for all taxable temporary differences. Nevertheless, the above, no deferred tax liabilities are recorded based on the recognition of goodwill.

The Group only recognizes deferred tax assets deriving from deductible temporary differences, tax credits or allowances or any tax-loss carry forwards, if they meet the following conditions:

- Deferred tax assets are only recognized in the case that the Group considers it likely to have enough future taxable against which they may be offset.
- In the case of deferred tax assets deriving from tax losses, they have arisen from identified causes that are unlikely to be repeated.

No deferred tax assets or liabilities are recognized when an asset is initially recorded, when it is not deriving from a business combination and when, at the time of recognition, there was no effect on book or taxable profits.

At the time of each accounting closing, deferred tax assets and liabilities are reviewed in order to verify that they remain valid and that any relevant adjustments are made in accordance with the results of the analysis performed.

2.12 Property, plant and equipment

2.12.1 Property, plant and equipment for own use

Property, plant and equipment for own use includes those assets that are owned or acquired under financial leases that the Institute holds for its own current or future use for administrative purposes or for the production or supply of assets and when they are expected to be used for more than one financial year. Among other things, this category includes property, plant and equipment received by the Group for the total or partial settlements of financial assets that represent debt claims against third parties which are expected to be used on a continuous and internal basis.

Property, plant and equipment for own use is carried in the balance sheet at acquisition cost, which consists of the fair value of any compensation paid plus any monetary payments made or promised, less accumulated depreciation and, if appropriate, any estimated losses that result from comparing the net value of each item with the relevant recoverable amount.

For these purposes, the acquisition cost of foreclosed assets that become part of property, plant and equipment for own use by the Group, is similar to the net amount of the financial assets exchanged for foreclosed.

Depreciation is calculated on a straight-line basis based on the acquisition cost of the assets concerned less any residual value, with the understanding that land on which buildings and other structures are located, have an undefined life and is therefore not depreciated.

Annual allocations to depreciation of property, plant and equipment are charged against the heading "Depreciation-Property, plant and equipment" in the consolidated profit and loss account and basically equals the following depreciation rates (calculated based on the estimated average useful life of the assets concerned):

	Annual percentage
Buildings	2%
Plant	4 to 15%
Furnishings and office equipment	10%
Data – processing equipment	25%
Transport elements	16%

At each accounting closing, the Group determines whether or not there are any internal or external indications that the net value of its property, plant and equipment exceeds their recoverable value. If so, the book value of the asset concerned is reduced to the recoverable value and future depreciation charges are adjusted in proportion to the adjusted book value and the new remaining useful life, if a new estimate is required. This reduction in the book value of property, plant and equipment for own use is applied, if necessary, by charging the heading "Impairment or reversal of impairment on non-financial assets" in the consolidated profit and loss account.

Similarly, when there are indications that the value of impaired property, plant and equipment has been recovered, the Institute recognizes the reversal of the impairment loss recorded in prior years by crediting the heading "Impairment or reversal of impairment on non-financial assets" in the consolidated profit and loss account and, consequently, adjusts future depreciation charges. Under no circumstances may the reversal of an impairment loss affecting an asset, increases its book value above that which it would have had if the impairment losses had not been recognized in prior years.

In addition, the estimated useful life of property, plant and equipment for own use is reviewed at least on an annual basis in order to detect significant changes in these estimates and, if any are detected, adjustments will be applied by correcting the depreciation charge made to the consolidated profit and loss account in future years in accordance with the new estimated useful lives.

Repair and maintenance expenses for property, plant and equipment for own use, are charged against results of the year in which they are incurred under the heading "Other administration expenses” in the consolidated profit and loss account. The financial expense incurred as a result of financing property, plant and equipment for own use is charged against the profit and loss account at the time of accrual and these expenses do not form part of their acquisition cost.

2.12.2 Property investments

The consolidated balance sheet heading “Property investments” recognizes the net value of land, buildings and other structures that are held for rental or to obtain a capital gain on their sale as a result of increases in their future market prices.

Criteria applied for recognizing the acquisition cost of property investments for depreciation, for the estimate of their respective useful lives and for recording any possible impairment losses, match with those described with regards to property, plant and equipment for own use (Note 2.12.1).

2.13 Intangible assets

Intangible assets are considered to be identifiable non-monetary assets that, while not existing physically, arise as a result of a transaction or have been internally developed by the Group. Only intangible assets whose cost may be reasonably estimated on an objective basis and which the Institute deems likely to provide a future financial benefit, are recognized for accounting purposes.

Intangible assets, other than goodwill, are recognized in the balance sheet at their acquisition or production cost, adjusted to accumulated amortization and any impairment losses they may have suffered.

Intangible assets may have an “undefined useful life” when the analysis performed on all relevant factors leads to the conclusion that there is no foreseeable limit to the period over which they are expected to generate net cash flows for the Institute, and they have an “definite useful life” in all other cases.

Intangible assets with an indefinite useful life are not amortized, although at the time of each accounting closing the Group reviews their respective remaining useful lives in order to ensure that they continue to be indefinite. If this is not the case, an appropriate action is taken.

Intangible assets with a defined life-span are amortized according to some criteria similar to those applied to property, plant and equipment. The annual amortization charge for these intangible assets is carried in the consolidated profit and loss account caption “Amortization - Intangible assets”.

For intangible assets with both an indefinite and definite useful life, the Group recognises any impairment in those assets and uses them as a balancing entry “Impairment or reversal of impairment on non-financial assets” in the consolidated profit and loss account. The methods applied to recognize impairment losses on these assets and, if appropriate, the recovery of impairment losses, recognized in prior years, are similar to those applied to property, plant and equipment (Note 2.12.1).

2.14 Provisions and contingent liabilities

When preparing the consolidated annual accounts, the Group differentiates between:

- Provisions: creditor balances that cover obligations that exist in the balance sheet date, deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, their amount and/or settlement date cannot be determined.
- Contingent liabilities: possible obligations deriving from past events which may materialize subject to one or more future events beyond the Group’s control.

The Group’s annual accounts include all significant provisions for obligations classified as probable. Contingent liabilities are not recognized in the consolidated annual accounts, but information is provided in accordance with requirements of Circular 4/2017 of Bank of Spain (Note 19).

Provisions are quantified using the best information available about the consequences of the event that justifies them and are re-estimated at the year end. They are applied to meet the specific obligations for which they were originally recognized and fully or partially reversed should such obligations cease to exist or decrease.

At the 2019 and 2018 year end, a number of legal procedures and claims had been initiated against the Group, arising in the ordinary course of business. The Group’s legal advisors and its directors understand that the finalization of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated annual accounts for the years in which they finalize.

Accounting provisions that are considered necessary, as stated in the previous criteria, are charged or credited to the consolidated profit and loss account caption “Provisions expense or reversal of provisions”.

2.15 Statements of cash flows

The terms employed in the cash-flow statements have the following meanings:

- Cash flows: Inflows and outflows of cash and cash equivalents, understood as short-term investments which are highly liquid and involve a low risk of changes in value.
- Operating activities: typical credit institution activities and other activities that may not

be classified as investing or financing activities.

- Investing activities: acquisition, sale or disposal through other means of noncurrent assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that cause changes in the size and composition of equity and liabilities and do not form part of operating activities.

2.16 Non-current assets held for sale and associated liabilities

The caption of "Non-current assets held for sale" of the consolidated balance sheet includes the carrying value of individual items which sale is highly likely, under these assets' current conditions, within the term of one year to be counted from the date of the annual accounts.

When, in exceptional cases, the sale is expected to occur over a period exceeding one year, the Group assesses the updated sale cost, accounting time value fluctuation under the heading of "Gains/(Losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated profit and loss account.

Consequently, the carrying amount of these items, which may be financial or non-financial in nature, will foreseeable be recovered through their selling price rather than through their continued use.

Specifically, the real estate assets or other non-current assets received by the Group to pay off all or part of the payment obligations of its debtors regarding to the Institute, are deemed non-current assets held for sale, unless the Group has decided to use these assets on an on-going basis.

Symmetrically, "Liabilities associated with non-current assets held for sale" include the credit balances associated with groups or for interruption in the operations of the Group.

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognized as such and their fair value, adjusted for estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortization by nature, are not depreciated nor amortized.

In the event that the carrying amount exceeds the fair value of the assets, adjusted for cost of sales, the Institute adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption "Gains/ (Losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated profit and loss account. In the event that the fair value of the assets were increased at a later date, the Group reverses the losses previously recorded in the accounts, increasing the carrying value subject to the limit of the amount prior to their eventual impairment, against "Gains/ (Losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated profit and loss account.

The results from the sale of non-current assets held for sale are presented under “Gains/ (Losses) on non-current assets held for sale not classified as discontinued operations” in the consolidated profit and loss account.

However, financial assets, assets from employee salaries, deferred tax assets and assets for insurance contracts that are part of a group of file or an operation in interruption are not valued in accordance with the previous paragraphs, but in accordance with the principles and rules applicable to these concepts, which have been explained in the preceding paragraphs of Note 2.

3. CUSTOMER SERVICE

On July 24, 2004, Order Eco 734 regarding customer service operations entered into operation. This has the purpose of regulating customer services and the defender at banks services and credit institutions. Regarding this Service, and although the Group is not obligated to have a customer service department, the Institute attends to all claims and complaints that receives during the course of its business, as a financial agency. In order to attain the highest quality of service, the Group decided to create a Unit in December 2006 to centralize the reception, processing, and a response to all complaints and suggestions received from suppliers, users and clients of ICO.

In 2019 a total of 136 complaints were received (93 in 2018), of which were addressed within an average of 3.4 working days (below 2018). 88% of the total are related to credit transactions in the intermediary line (ICO Directo and ICO SGR) and were therefore passed on to the relevant credit institutions. Another 3% were related to repayments or resolutions about ICO direct operations and 3% related to other issues, unrelated to products or services managed by the Group.

4. DISTRIBUTION OF RESULTS

The distribution of 2019 results of the Group’s Parent Company, at the date of formulation of these consolidated annual accounts, has not been established by the Ministry of Economic Affairs and Digital Transformation. Such distribution will adjust to the Bylaws.

5. RISK EXPOSURE AND OTHER INFORMATION ON THE INSTITUTE, AS GROUP’S PARENT COMPANY

5.1. Risk – General aspects.

Risk is inherent to financial activity. Properly measuring, managing and controlling risk must contribute to attaining adequate margins and to the maintenance of an entity’s solvency based on the confidence of clients, investors and employees.

Without any intention of exhaustively classifying the risks faced by a financial institution, they may be classified into four categories: Liquidity risk, market risk, credit risk and operating risk.

- Liquidity risk: The risk incurred as a result of an absence of sufficient liquid resources to comply with obligations. This situation could be thanks to the inadequate assets and liabilities maturity structure, or due to the exceptional market crisis situation.
- Market risk: Covers the influence on the profit and loss account and equity exercised by adverse changes in relevant financial variables, such as domestic or foreign currency interest rates, exchange rates, share prices, etc. This risk may be subdivided into two large groups: Balance sheet or structural market risk and market risk affecting trading portfolios.
- Credit risk: This one refers to the risk of not fully recovering the principal and interests related to our investments within the estimated periods. This risk may also be subdivided into two broad groups: Counterparty risks with banking institutions and credit risk regarding investment transactions.
- Operating risk: Incurred as a result of administrative, internal, accounting, computer, legal or external errors due to unforeseen circumstances.

As a credit institution, ICO is exposed to these types of risks, which must be identified, measured and monitored in order to operate efficiently. This is done according to the Risk Policy Manual approved by the General Board, which contains the different methods, applicable legislation, procedures and organizational structure.

5.2. Risks. Organizational structure

In order to cover the entire risk spectrum, within its organizational structure, the Institute (according to Presidential Organizational Circular 3/2018 of 29 August), has created specialised units under the Directorate for Risk, which reports to the General Directorate for Risk and Finance.

The Directorate for Risk’s functions include, among others, drafting and proposing internal risk policies and methods for analyzing, managing and monitoring the Institute’s financial and credit risks, assessing the admissibility of ICO credit risk and overseeing ICO’s adaptation to national and international risk regulations, while driving, coordinating and supervising the performance of the units under its remit.

The specialized Risk areas are Methodology and Acceptance department, the Global Risks Control area, and the Follow-up and Recovery Department, each one with specific duties.

The primary duties of the Global Risk Control area are the following:

- Preparing, proposing and controlling financial risk measurement methodologies applied by the Institute.
- Overseeing the correct compliance of the limits of financial risks and policies previously approved.
- Analyze, monitor and review periodically credit counterparty lines, analyze them, and monitor levels with the mediating entities and counterparts.
- Defining and reviewing measurement, back-testing and stress-testing systems.
- Proposing criteria for market valuation of new financial products, establishing methodologies, risk measurement and potential risk (Add-on).
- Analyzing the adaptation of national and international legislation regarding risks within its competency.
- Value at market price new products and structures and their potential risk (Add-on).
- Supervise the correct application of approved methodologies risks.
- Analysis of credit risk in Liquidity Lines Securitization Funds operations.
- Propose new Liquidity, Market, Credit and New Products risk limits.
- Reporting and diagnosis of the risk situation for Assets and Liabilities Committee, Operations Committee, Monitoring Committee and General Council.
- Report statements of interest rate risk, liquidity, large risks and Basel ratios for Bank of Spain.
- Update and maintain the Risk Adjusted Profitability tool (RAR).
- Update and maintain ICO Price Control tool in RORAC.
- Risk Appetite Framework (MAR).
- Analyze, study and report on Securitizations.

The Methodology and Acceptance department, from which the Risk Methodology and Policies Area depends, has the following functions, among others:

- Evaluate the risk admissibility for new asset products and direct credit operations not included in automated procedures.
- Analyze under the assessment of eligibility of direct credit risk limits approved by ICO with clients and economic groups.
- Analyze and evaluate risks assumed by ICO, under any proposed modification to transactions already formalised, which require the approval of decision-making bodies.
- Analyze the adaptation to national and international standards regarding risks within its competence.
- Coordinate the Credit Committee in which agreements regarding the granting of new ICO direct loans, as well as modifications of operations already formalized are discussed and adopted.
- Define and propose for approval by ICO internal organs of decision direct credit risk policies and/ or, where appropriate, policy changes already approved at ICO.
- Elaborate and update Country Risk reports related to financing operations as

required.

- Develop methodologies, elaborate application manuals and maintain tools related to the credit valuation in project financing.

The Monitoring and Recovery Department, from which the Wholesale Monitoring and Recovery Area and Retail Monitoring and Recovery Area depend, has the following among its functions:

The Wholesale Monitoring and Recovery Area:

- Control and follow the risk of direct financing operations, promote recoveries of balances derived from doubtful operations, resolved and failed, and supervise the compliance with the portfolio conditions of lines in force.
- Analyze and value, from ICO’s credit risk point of view, proposals of mediation lines.
- Control and verify the compliance with non-financial conditions stipulated for ICO’s mediation lines in case of risk sharing.
- Establish and maintain a system of internal rating, country risk rating, operational risk methodology and credit risk limit methodology for direct ICO economic groups clients. Perform control and reporting of large risk exposures.
- Ensure the quality of ICO portfolio, using all the information needed.
- Coordinate the Monitoring Committee of the portfolio of direct loans from ICO.
- Propose the allocation/reversal of provisions, based on regulations in force.
- Participate in the Credit Committee in which agreements concerning the granting of new direct loans from ICO, as well as modifications of already formalized operations, are discussed and adopted.
- Promote, in coordination with corresponding Legal & business areas appropriate recuperative actions regarding financing transactions that are in arrears, settled and failed.
- Respond to requests from regulatory agencies (rating agencies, internal and external auditors, Court of Auditors, the Bank of Spain, etc.).
- Analyze adaptation to national and international standards regarding risks within its competence.

The Retail Monitoring and Recovery Area:

- Control and monitor the risk of direct operations to retailers.
- Analyze the feasibility of refinancing operations corresponding to objective segments.
- Monitor and Control over ICO-owned loans recovery actions which management is outsourced by the Institute to other entities. It is done through services agreements for SME, micro-SME, freelances and individuals segments.
- Recovery management of those ICO-owned loans which management and administration is carried out directly by the Institute for SME, micro-SME, freelances and individuals.

- Proposals preparation for the in-house ICO decision taking bodies, regarding each area records (resolution proposals, failed, refinancing agreement, cancellation, operations transfer for its direct management, etc.)
- Preparation and presentation at the Monitoring Committee of the situation of the retail risk loan portfolio.
- Coordination with the Legal Counselling Department of Financial Operations and Economic Policy in the response and resolution of incidents that will be transferred to the entities in which the presentation of contentious recovery services is delegated, as well as in other types of actions that require the positioning of ICO within the different phases in judicial claim processes, as well as in bankruptcy proceedings or similar characteristics.
- Management of requests received through the Customer Service Area, by holders and / or guarantors of all loans in the retail portfolio.
- Monitoring, formalization and design of those direct finance operations which are Government-traded as a consequence of serious economic crisis, natural disasters, or any similar events. Later on, the assessment of any initiative or action proposal for its transfer to the ministerial departments related to that particular situation and of certain borrowing groups' action fields.

ICO has a team of specialised professionals in each type of risk, each one responsible for his/her own duties and acting in accordance with the inspirational risk principles, the risk policy manual in force and existing internal procedures.

5.3 Liquidity risk at ICO

Community legislation and its development in Spain in this matter only establish general requirements for the measurement, control and management systems of liquidity risk in entities, and are contained in the following normative texts:

- Directive 2013/36/EU of 26 June, related to the access to the activity of credit institutions and to the prudential supervision of credit institutions and investment companies.
- Regulation (EU) No. 575/2013 of 26 June, on prudential requirements of credit institutions and investment services companies, part six.
- Implementing Regulation 680/2014 of 16 April, establishing the technical implementing rules in accordance with Regulation No. 575/2013, chapters 7, 7 bis and 7 ter.
- Law 10/2014 of 28 June, on the management, supervision and solvency of credit institutions, articles 41, 42 and Additional Provision Eighth.
- RD 84/2015 of 13 February, which develops Law 10/2014, article 53.
- Delegated Regulation (EU) 2015/61 of the Commission from October 10, 2014, completing Regulation 575/2013 with regards to the Liquidity Hedging Requirement (LCR).

- Circular 2/2016 of 2 February, which establishes accounting standards, annual accounts, public annual accounts and reserved statistical information of securitization funds that replaces Circular 3/2008 of 22 May (repealed), rule 51, DT6 and Annex VII.
- Execution Regulation (EU) 2016/322 of the Commission from 16 February, amending Execution Regulation (EU) 680/2014, which establishes technical execution standards in relation to the communication of information for supervision purposes by Entities on the Liquidity Coverage requirement (LCR).
- Execution Regulation (EU) 2016/313 of the Commission, of 1 March, amending the Execution Regulation (EU) 680/2014 with regards to Additional Control parameters for the purpose of information on liquidity.
- Execution Regulation (EU) 2017/2114, of 9 November, amending Regulation (EU) 680/2014 with regards to templates and instructions.
- Circular 4/2017 of 27 November, standards 59 and 60.

In general, there is no specific requirement for capital for liquidity risk beyond a set of action standards to be followed (qualitative requirements) contained in Fifty-first Rule of chapter six of risk treatment of Circular 2/2016 where it is also mentioned the need to report on the actions carried out in the process of capital self-assessment and supervisory review contained in chapter 5, all in order to assess whether its internal capital is sufficient to cover its current and future activities.

Currently, with the publication of the updated version of the Basel III liquidity and solvency documents: Global regulatory framework to strengthen banks and banking systems and Basel III: International framework for measurement, the standardization and monitoring of liquidity risk is a new step in the direction of guaranteeing more efficient parameters in the measurement and control of liquidity. As of January 1, 2013, the Basel Committee published: The liquidity Hedging Ratio and liquidity risk monitoring tools, which advance the definition and monitoring of the short-term liquidity ratio, and complemented this work with the publication on January 12, 2014 of the Guidance for Supervisors on Market-Based Indicators of Liquidity.

In this sense, on January 17, 2015 the Delegate Regulation 2015/61 was published, amending Regulation CRR 575/2013 of the European Parliament and of the Council is complete with regards to this ratio (LCR) and by calendar that starts on October 1, 2015 with an obligatory 60%, 70% as of January 1, 2017, 80% as of January 1, 2018, and which entered fully in effect (100%) from January 1, 2018.

In January 2014 “Basel III: Net Stable Financing Ratio” (NSFR) consultation document was published for the definition and calculation of the ratio of long-term liquidity, which after a consultation phase, which lasted until April 11, 2014, led to the publication of the final document in October 2014. As a result it is necessary to calculate a minimum net stable financing ratio. Published on June 2019, Regulation 876/2019 and until new templates are published to report the ratio, it will be applicable from the end of June 2021.

During 2013 and following years, the Institute, calculated on a monthly basis, short and long term liquidity rates, as additional liquidity controls. In every period, the Institute has achieved results that are within the limits that would be applied in the future.

Furthermore, prospectively throughout 2015 and in following years, based on the document published by the BIS "Basel III: the Net Stable Financing Ratio" of October 2014 and with definitions and criteria in force at each moment, the results have been calculated quarterly, which provide ICO balance with the introduction of different scenarios handled one year ahead (2020), in relation to the NSFR ratio.

At ICO, it is perfectly defined an organizational structure responsible for reporting, monitoring and controlling liquidity risk.

The measurement used to monitor balance sheet liquidity risk is the liquidity gap. The liquidity gap provides information regarding the mismatches between the inflow and outflow of funds on a daily basis, for periods of up to 12 months covering all balance sheet and off-balance sheet items that produce cash flows on the actual date occurring.

Liquidity gaps are measured in one week periods, and one, three and six month's periods. There is a percentage over the total of Institute's liabilities that cannot be exceeded for each period: one week-period: up to 0.5%, one month period: up to 1%, three month period: up to 2.5% and six month period: up to 5%.

Short-term liquidity is monitored on a daily basis. On a weekly basis, and at the end of each month, this monitoring and control of limits takes place with a horizon of 1 week, 1 month, 3 months and 6 months.

ICO has established quantitative limits and alerts that allow us to get ahead from possible situations of liquidity tension.

There is also a policy of diversifying sources of basic finances in order to minimise this risk, and a regular review of liquidity including any projections for new activity, in order to establish needs in terms of amounts and dates of financing, for an annual financing plan, sufficiently in advance.

Likewise, approved by the General Board on February 27, 2018, there is a liquidity Contingency Plan that establishes a priority order as reference when resorting to financing sources in stress scenarios.

Generally, ICO raises liquidity in a variety of ways, including raising the interbank market, repo and simultaneous liquidity and issuing debt securities in wholesale and retail markets.

The financial crisis that affected international and national markets, rooted in the US sub-prime market crisis, triggered a sharp downturn by financial markets, causing the resources for raising financing on which both international and national financial entities rely to decline sharply. As a result, fund raising on the interbank market or through the issuance of debt securities was also seriously affected.

Due to this new situation, decisions were taken throughout 2019, as done previously, to adapt ICO to the new circumstances in order to ensure the liquidity needed to meet its payment commitments on time and to achieve its strategic operating, investment and growth targets. Thanks to these measures, ICO's management also does not anticipate any liquidity shortages in 2020.

Maturity Analysis of trading and hedging derivatives denominated in Euros

The following table shows, by notional, the contractual maturities for euro-denominated derivatives, recognized as financial assets and financial liabilities at December 31, 2019 and 2018 (except for embedded derivatives in hybrid financial instruments) and loan commitments considered financial derivatives as they can be settled, by adjusting, in cash or with another financial asset, in which the maturities are deemed essential for understanding the Institute's cash flow projections:

At 31 December 2019:

	Thousands of Euros					
	Up to 1 year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	259 464	230 384	315 133	-	-	**804 981**
-Of which: credit commitments considered as derivatives						
Hedging derivatives	4 525 140	6 413 078	1 008 134	241 004	18 623	**12 205 979**
	4 784 604	**6 643 462**	**1 323 267**	**241 004**	**18 623**	**13 010 960**

At 31 December 2018:

	Thousands of Euros					
	Up to 1 year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	177 684	320 008	343 260	-	-	**840 952**
-Of which: credit commitments considered as derivatives	-	-	-	-	-	**-**
Hedging derivatives	5 514 585	3 540 420	955 153	275 711	2 552	**10 288 421**

5 692 269	3 880 428	1 298 413	275 711	2 552	11 129 373

Regarding the information presented in the previous tables, the following should be highlighted:

- Where a counterparty can choose when an amount should be paid, the derivative is assigned in the first period, in which the payment to the Institute may be demanded;
- Amounts included in the charts correspond to undiscounted contractual amounts. Interest-rate swaps are shown at their net amount if settled by differences, loan commitments considered derivatives at their gross amount and all remaining financial derivatives at their contractual amount of exchange unsettled by differences;
- For derivatives with a non-stated contractual amount at the reporting date, e.g. because they depend on the performance of an index, the residual maturity, considered for classification purposes in the preceding tables, was determined based on prevailing conditions at December 31, 2019 and 2018, respectively;

Liquidity GAP analysis

The purpose of the liquidity management is to ensure that the entity maintains appropriate liquidity levels to cover its needs, both at the short and long terms, optimizing the impact of its cost in the profit and loss account.

On a daily basis, the liquidity profile on the balance is monitored for the purpose of control, information to management, and analysis of funds' needs for at least the following twelve months, additionally incorporating scenarios with the analysis of funds' needs to cover the activity foreseen for such period.

As explained above, ICO's liquidity management is based on the analysis of the difference between inflows and outflows generated by contractual maturities of operations of its balance (liquidity gap). This analysis provides the necessary information on the volume of funds that will be necessary to gain, resorting to different financing sources available for the entity.

Moreover, the Institute maintains a buffer of high-quality liquid assets that will allow, where necessary, obtaining liquidity immediately through its discount on the European Central Bank. The balance of assets that may be used by the Institute as liquidity reserve has sufficient capacity to cover its negative liquidity gaps, for two purposes:

- Contribute flexibility when planning the volume and timing of the gaining of necessary funds to cover liquidity gaps.
- Security buffer to face possible tensions or crisis situations in markets.

The tables below compare liquidity inflows and outflows at different maturities (partial and accumulated liquidity gaps). Inflows and outflows in foreign currency are shown at their equivalent value in such currency.

Additionally, the evolution of the balance of liquid assets and their level of coverage over liquidity gaps are incorporated for the different terms.

At 31 December 2019:

	Thousands of Euros						
	Up to 1 month	From 1 to 3 meses	From 3 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years
Inflows equivalent value Euro	3,178,013	2,700,315	4,255,728	5,066,752	6,894,136	11,432,780	6,907,400
Outflows equivalent value Euro	-3,684,756	-4,377,907	-4,139,032	-4,163,049	-7,417,998	-7,252,399	-2,844,975
Partial liquidity gaps	-506,743	-1,677,592	116,696	903,703	-523,862	4,180,381	4,062,425
Accumulated liquitity gaps	-506,743	-2,184,335	-2,067,639	-1,163,936	-1,687,798	2,492,583	6,555,008
Buffer of highly-liquid assets	6,025,462	6,107,588	6,110,296	5,532,135	4,011,824	111,532	-
Difference between buffer of liquid assets and accumulated liquidity gaps	5,518,719	3,923,253	4,042,657	4,368,199	2,324,026	2,381,051	6,555,008
% Coverage of buffer of liquid assets on accumulated negative liquidity gaps	1189%	280%	296%	475%	238%	n.a.	n.a.

At 31 December 2018:

	Thousands of Euros						
	Up to 1 month	From 1 to 3 meses	From 3 to 6 months	From 6 to 12 months	From 1 to 2 years	From 2 to 5 years	More than 5 years
Inflows equivalent value Euro	6,976,624	2,593,682	2,920,046	5,430,434	7,873,834	13,458,668	6,614,182
Outflows equivalent value Euro	-7,346,182	-1,563,840	-5,552,088	-5,090,123	-6,638,710	-10,106,881	-3,101,153
Partial liquidity gaps	-369,558	1,029,842	-2,632,042	340,311	1,235,124	3,351,787	3,513,029
Accumulated liquitity gaps	-369,558	660,284	-1,971,758	-1,631,447	-396,323	2,955,464	6,468,493
Buffer of highly-liquid assets	7,405,589	8,180,089	8,495,880	8,529,226	6,025,420	281,222	-
Difference between buffer of liquid assets and accumulated liquidity gaps	7,036,031	8,840,373	6,524,122	6,897,779	5,629,097	3,236,686	6,468,493
% Coverage of buffer of liquid assets on accumulated negative liquidity gaps	2004%	n.a.	431%	523%	1520%	n.a.	n.a.

As it may be seen in these charts, negative accumulated liquidity gaps are covered by the available buffer of liquid assets.

Additionally, there is another series of eligible pledged assets in the ECB policy which discount would allow obtaining liquidity at the very short term. The potential liquidity that could be obtained would amount to 1,234,136 thousand Euros and 829,631 thousand Euros at December 2019 and 2018, respectively.

5.4. Market risk at ICO

As indicated above, it is possible to distinguish two major groups within this risk: balance sheet or structural market risk, and the trading portfolio risk. In accordance with its internal policy, ICO is currently attempting to minimise trading portfolios and hold only those that, following the current accounting legislation, do not allow their classification as hedging or investment. Accordingly, market risk results almost exclusively from ordinary activities.

1) There are two basic **criteria** through which exposure to changes in interest and exchange rates is revealed: Profitability and Solvency:
   Profitability: At ICO, this mainly derives from the profit and loss account and therefore the relevant variable here is the Interest Margin or Financial Margin.
   Solvency: A company's equity is the primary guarantee for lenders. The value of this capital or equity is the main criterion for measuring solvency.
   Using these considerations, ICO has implemented a system for measuring market risk based on three pillars: a) Calculation of the sensitivity of the annual Financial Margin. b) Calculation of the sensitivity of equity and c) Calculation of hypothetical trading portfolios' "Value at Risk", if any exist.

2) **Methodology.** In order to measure balance sheet risks relating to the Financial Margin, the weighted partial maturity gap method was used before 2015, calculated as the difference between asset and liability volume and off-balance sheet transactions that mature or renew interest rates within the following 12 months, weighted by the period affecting the Margin.
   In order to measure the sensitivity of Equity, the duration gap method was used before 2015. The duration gap is obtained as the difference between the duration of assets and liabilities, and once the difference is obtained, the sensitivity gap may be calculated.
   Both methods were replaced in mid-2014 by other simulations based on Interest Income and Net Asset.
   Regarding the Value at Risk, the methodology to be used will be determined by the type of portfolio involved and may be based on parametric, historical simulation or Monte Carlo methodology.

3) **Risk degree.** The decision regarding the degree of risk assumed by ICO is the Senior Management's responsibility, which based on the proposal of the Directorate for Risks and Accounting, establishes the acceptable limits based on the particular characteristics of ICO. These limits are reviewed regularly.

For the purpose of assessing a sensitivity limit of the Financial Margin, it will be estimated based on implicit rates, calculated on the basis of the market curve and on the one on which increases or decreases are applied by +/- 200 basic points, applying in the decreasing scenario a floor in -1%. The difference between both calculations, in absolute value, will be the estimated sensitivity, which amount cannot imply a decrease of the simulated Financial Margin above -35 million Euros.

In order to determine the sensitivity of the Financial Margin for variations of the exchange rate in currencies Euro/US Dollar and Euro/Pound Sterling, variations of +/- 10% will be assumed.

The exchange rate risk shall not exceed, in any case, 25% of the global limit established for the Financial Margin.

As a result of applying these movements of +/- 200 bp, with these shifts in interest rates, the sensitivity of the balance of ICO to December 31, 2019 was -11,610 million Euros in total, distributed as follows: -6,818 for the balance in Euros, -2.673 thousand Euros of the balance in US Dollars and -45 thousand British Pounds. Exchange rate (with movements of +/- 10% on changes in USD / EUR and GBP / EUR) was -1,961 thousand Euros in the Dollars and -114 thousand Euros in Pounds.

For the purpose of establishing a limit in the sensitivity of the net asset value, current values of our balance will be calculated through a market curve and another to which increases or decreases are applied by +/- 200 basic points with a floor, in the scenario of decrease of rates, by -1% for immediate maturities, which floor will increase in 5 basic points per year, until 0% is reached for maturities in 20 or more years. Such absolute floor is displacement. The difference between both values will be considered as the sensitivity of the net asset value of our balance in absolute value. The percentage (%) implied by this variation on the net asset value shall not represent a decrease above 10% of the estimated net asset value.

In order to determine the sensitivity of the net asset value for exchange rate variations in currencies Euro/US Dollar and Euros/Pound Sterling, movements of +/- 10% will be assumed.

At December 31, 2019 the values of the sensitivity of ICO Net Asset reached -5.22% in value added with a distribution on balances as follows: -4.68% for Euro interest rate, -0.24% in the US Dollar and -0.03% in the British Pound. Exchange rate for Dollar presented a sensitivity of -0.22% and -0.05% for Pounds.

4) **Risk modification.** The last step for efficient risk management is the ability to modify out maturity and duration gaps in order to bring them into line with desired risk values at any given moment, using balance sheet or off-balance sheet instruments based on

market opportunities and in accordance with the management decisions taken within the authority granted for this purpose or the Balance Management Department, the General Management for Finance and Strategy and Finance or the Operations Committee.

The main currencies used by ICO to present its balance sheet at December 31, 2019 are the Euro, US Dollar and Pound Sterling, which account for a 95.1% of the total balance sheet liabilities, out of which approximately 72% are in Euros and more than 23% in US Dollars.

If we look at the assets of the balance sheet, the Euro concentrates approximately 92.7% of the total, the US Dollar being more than 5.7%, while other currencies distribute the remaining amount.

Regarding currencies other than the Euro and Dollar with which the Institute operates, its balance sheets are virtually saved from interest and exchange rate risks either because the operation involves financing obtained in the currency concerned and converted to Euros using a derivative instrument that completely covers all currency flows, or because the financial of a certain asset is designed to avoid these risks.

In addition to the establishment of limits, monitoring and control their regular compliance, ICO has established an integrated system through the application of measurement, management and control of risks in order to verify the influence that several development scenarios, involving relevant financial variables, could have on the Financial Margin or on Equity. On a regular basis, the development of the controlled variables is observed, given different scenarios such as, for example, development estimates provided by the Analysis Service at ICO, should there be non-parallel movement in interest curves or market stress situations.

5.5. Credit risk at ICO

As has already been mentioned about credit risk, there are two broad groups: Counterparty and country risk.

The first group includes transactions with credit institutions, both on and off the balance sheet. Monitoring activities are carried out by using a system that integrates the administration of transactions and the risks deriving from them in real time, providing operators with current information regarding counterparty credit lines available at any given moment.

The competent bodies at ICO have defined and approved a method for consuming counterparty credit lines based on the evaluation of the transactions at market prices plus a potential future or add-on risk, that is measured as a percentage of the nominal value of the transaction, calculated as a potential maximum loss of 95% of confidence over the life of the transaction. The methodology is periodically reviewed, and the add-ons are adjusted at least on a half-yearly basis.

The basic criteria for establishing counterparty lines are also approved by ICO's General Board on a half-yearly basis and is performed an individualized analysis of them. These counterparty lines are subdivided into two broad groups as a result of the operating characteristics of ICO. The first of the counterparty lines is related to cash transactions. The other counterparty line is related to mediation transactions, operations in which ICO finances several investment projects through framework programmes arranged with several entities such as, for example, lines of Businesses and Entrepreneurs or Internationalization.

Transactions involving derivatives contracted by ICO have counterparties with high credit ratings, so that a very high percentage of these, almost 100%, maintain an Agency rating investment grade. These counterparty institutions operate at the national and international level.

ICO's activities with credit institutions, in the area of both second-floor and direct facilities, are carried out with counterparties that, in almost 95% of cases, have an investment grade rating.

ICO has structured several stages of evaluation and control relating to company credit risk: Acceptance, Monitoring and Recovery.

At the Acceptance stage, the Institute performs an analysis of companies and transactions based on an on-going concern evaluation, guarantees are analyzed in order to issue an opinion about the risk and the potential client, which is the basis for taking decisions by the Operations Committee or General Board, as appropriate.

The Monitoring process has the purpose of making the Institute's credit portfolio to achieve the highest quality, i.e. ensures that our loans are being repaid on a timely basis, on the agreed dates. The basic monitoring unit is the client, not the transaction, such that any incident affecting a transaction affects the rating of a client and its group. This is achieved by a permanent control, with periodic reviews of the economic and financial situation of the same and keeping support tools updated for decision-making and it allow for detect warning signs; as well as promoting action plans against problematic risks in order to maximize the repayment of financing granted.

Finally, recovery tasks in the Monitoring and Retail Recovery area are focused in the recovery of defaulted operations via telephone, mail or e-mail. Focused also on payment agreements talks, once the operation is in legal dispute, and on the study of those operations that went out to tender in order to establish the Institute's vote in creditor's tender.

Under the heading regarding credit risk, special mention must be made to the so-called country risk. Country risk refers to the solvency of all counterparties characterised as pertaining to an area geographically, politically and legally defined as a State.

In this sense, ICO has approved a methodology for measuring country risk that follows current legislation and complies with the objective of evaluating countries by group risk based on multiple criteria, thereby allowing for a defined policy when recording provisions for that country risk, evaluating direct loan transactions and segmenting the non-resident loan portfolio. Rating agency and OECD-CESCE evaluations are used as a source of information when classifying countries into risk groups.

5.6. Operating risk at ICO

It is, increasingly, more important to measure and control operating risks, especially bearing in mind the New Capital Accord (Basel III). The risk deriving from inadequate processes, incorrect records, system failures, legal risks or the risk of loss inherent to the formalization of transactions is included.

In this area, certain tools have been developed to facilitate the task of covering operating risk. Specifically, these tools consist of the policies covering the monthly monitoring of the control panel or activity indicators, the development of processes and internal procedures, the definition of client and operations monitoring and internal control of incidents, or the existing contingency plan. It is important to mention that the regular controls applied to procedures and operations are performed by internal and external auditors.

5.7 Outstanding credit risk with companies

5.7.1 Classification per sector

Taking into account a classification by sector, the distribution of the outstanding risk (*) is as follows:

	Millions of Euros			
	2019		2018	
	Amount	% s/total	Amount	% s/total
Property investment	**561**	**5%**	**703**	**6%**
Construction of social housing for sale	7	0%	9	0%
Construction of social housing for rent	379	3%	433	4%
Acquisition and development of land	175	2%	231	2%
Others	-	-	30	0%
Investment property, plant and equipment	**8 042**	**73%**	**7 085**	**67%**
Renewable energies	1 545	14%	1 015	9%
Water infrastructures	172	2%	200	2%
Electricity infrastructures	958	9%	657	6%
Gas and fossil fuel infrastructures	855	8%	589	6%
Transport infrastructures	3 520	32%	3 965	38%
Tourism and leisure	35	0%	20	0%
Social-health infrastructures	112	1%	141	1%
Telecommunications	50	0%	0	0%
Audio-visual production and exhibition	22	0%	17	0%

Business parks and other constructions	10	0%	4	0%
Other	745	7%	371	4%
Research and Development material investment	18	0%	16	0%
ICO Finance lines AA.CC. Agencies	-	-	90	1%
Acquisitions of companies	**340**	**3%**	**104**	**1%**
General corporate needs	**132**	**1%**	**707**	**6%**
Restructuring of liabilities	**1 150**	**10%**	**768**	**7%**
General State Budgets	**840**	**8%**	**1 174**	**11%**
Financial intermediary services	**-**	**-**	**186**	**2%**
	11 065	100%	10 727	100%

(*)Including loans and advances to customers without valuation adjustments or impairment losses (except for "other financial assets"). Also includes financial guarantees for customers and debt securities of resident Public Administrations classified as loans and advances receivable.

At December 31, 2019 and 2018 the total exposure is mainly concentrated in three sectors: "Investment property, plant and equipment", which account for 73% of total risk in 2019 (67% in 2018); the sector of "Liabilities' Restructuring", with 10% of total risk in 2019 (7% in 2018) and "General State Budgets" for 8% (8% in 2018).

Within the "Investment property, plant and equipment" sector, it is important to highlight the impact of the sub-sector named " Transports Infrastructures" on the sector, with a 32% of weight over the risk of 2019 (38% in 2018).

5.7.2 Classification by geographic location of financial investments

The total risk at December 31, 2019 is distributed as follows: 79% in transactions financing investments in Spain amounting to 8,796 million Euros (82% at 2018 with 8,811 million Euros) and 21% in transactions aimed at financing investment projects in other countries.

The risk distribution for investment projects in the national territory per Autonomous Communities in 2019 is the following: Andalusia and Valencia with 7%, Madrid with 6%, Catalonia with 5% and Extremadura with 4% (8%, 7%, 7%, 7% and 2% in 2018, respectively).

Transactions taking place in the international market at December 31, 2019 and 2018 are distributed as follows in accordance with the active foreign risk:

	Millions of Euros			
	2019		2018	
	Amount	Percentage	Amount	Percentage
European Economic Community	588	26%	406	21%
Latin America	628	28%	589	31%
United States	122	5%	152	8%
Rest of Europe (not EU)	30	1%	-	-
Other	901	40%	769	40%
	2 269	100%	1 916	100%

5.8 Information on payment deferrals to suppliers

In compliance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures against late payment in commercial transactions, developed by the Resolution of January 29, 2018 of the Spanish Audit and Accounting Institute (ICAC) on information concerning late payment to suppliers in commercial transactions to be included in the Notes to annual accounts, we should point out the following:

- Given ICO's core business (financial activity), the information presented in this Note concerning late payment, is exclusively related to payments to services suppliers and sundry suppliers to ICO other than depositors and holders of ICO securities. With the latter, the contractual and legal payment deadlines of both liabilities due to demand and with deferred payment have been met dutifully. Nor is any information provided concerning payments to suppliers excluded from the scope of this mandatory disclosure pursuant to the provisions of the aforementioned ICAC Resolution, such as suppliers of fixed assets that are not considered to be trade creditors.

- Regarding the information required by Law 15/2010, of 5 July corresponding to the Institution's commercial and service suppliers and considering what it is included in the article 6 of ICAC Resolution of January 29, 2018, presented below, with the scope defined in the preceding paragraph, the information required by those regulations:

	2019	2018
(in days)		
Ratio of paid operations	7	7
Ratio of operations payable	3,5	3,5
Average payment period to suppliers	6,75	6,75
(in thousands of Euros)		
Total amount of settled payments	22 575	25 303
Total amount of outstanding payments	701	1 298

When elaborating the information above, payments corresponding to credits and debits between Group companies have been excluded.

5.9 Risk concentration and other specific regulations of ICO

At December 31, 2019 and 2018, the Group is exempt from the limits on large exposures set out in the applicable regulations (Part IV of EU Regulation 575/2013 and Circular 3/2008 of the Bank of Spain, respectively), according the provisions of the bylaws of the Institute.

Royal Decree-Law 12/2012, of March 31, 2012, established the treatment in the Institute of exposures to credit institutions resident in EU member states.

5.10 Information on construction and property development finance and associated foreclosed properties

Regarding property risk portfolio policies and strategies, the Institute has acceptance processes with specific policies for this type of product (e.g. experienced developers, percentages of accredited sales, data on rental demand by independent experts), assessing the economic and financial feasibility of projects.

Payments for certified work are subsequently validated and controlled, construction progress are monitored and sales are controlled.

In addition, studies have been conducted to detect the reasons behind the payment difficulties of customers that have not paid in order to suggest solutions that allow transactions to be completed successfully.

Information on construction and property development finance is as follows:

Finance granted for construction and property development and related hedges:

	Thousands of Euros					
	2019			2018		
	Gross amount	**Excess over value of collateral**	**Specific allowance**	**Gross amount**	**Excess over value of collateral**	**Specific allowance**
Property financing	544 338		230 547	595 603	-	256 430
- Out of which doubtful	120 529		118 200	142 710	-	136 871
Memorandum item						
Defaulted loans	-	-	-	-	-	-

	Thousands of Euros	
	2019	**2018**
Memorandum item:		
Total loans to clients, excluding regional governments	7 569 310	7 196 965
Total assets	31 822 825	36 236 581
Total allowance for normal risk	31 190	29 805

Total finance for construction and property development at December 31, 2019 represents 1.71% of the total balance sheet (1.64% at December 31, 2018).

- Finance for construction and property development (gross amounts):

	Thousands of Euros	
	2019	2018
1 Without mortgage collateral	**157 454**	**180 691**
2 With mortgage collateral	**386 884**	**414 912**
2.1 Finished buildings	376 739	404 128
2.1.1 Homes	376 739	404 128
2.1.2 Other	-	-
2.2 Buildings under constructions	10 145	10 784
2.2.1 Homes	10 145	10 784
2.2.2 Other	-	-
2.3 Land	-	-
2.3.1 Developed land	-	-
2.3.2 Other land	-	-
TOTAL	**544 338**	**595 603**

- Home purchase loans:

	Thousands of Euros			
	2019		2018	
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
Home loans	13 727	-	14 333	-
Without mortgage collateral	13 123	-	12 757	-
With mortgage collateral	604	-	1 576	-

- Home purchase loans with collateral mortgage (percentage of risk on latest appraisal available, LTV):

At 31 December 2019:

	Thousands of Euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%
Gross amount	453	55	96	-	-
- Of which: doubtful					

At 31 December 2018:

	Thousands of Euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%

Gross amount	1 018	338	220	-	-
- Of which: doubtful					

- Foreclosed assets received as the settlement of debts from construction and property development loans.

  None of the foreclosed assets on the Institute's balance sheet (Note 17) comes from financing granted to construction companies and property developers, or mortgage loans to households for home purchases, nor do they consist on equity instruments, investments and finance to non-consolidated companies holding the assets.

5.11 Information related to Institute's refinanced and restructured operations

Presented in the next table, there is the detailed information related to those refinanced and restructured operations as of December 31, 2019 and 2018 (gross amounts), as requirement of Bank of Spain 6/2013 Circular, about financial public and reserved information rules:

At 31 December 2019 (gross amounts, in thousands of Euros):

	With real guarantee	**No real guarantee**	**TOTAL amounts**	**TOTAL hedging**
Public Administrations	1 473	183 605	185 078	73 987
Doubtful	-	43 738	43 738	43 738
Financ companies (financ assets)				
Doubtful				
Companies and business ind	738 996	101 341	840 337	291 075
Doubtful	275 580	19 718	295 298	265 949
Non-doubtful	7 789	-	7 789	4 613
Property doubtful	3 529	-	3 529	3 437
Rest of individuals	459	6	465	-
TOTALS	**740 928**	**284 952**	**1 025 880**	**365 062**

At 31 December 2018 (gross amounts, in thousands of Euros):

	With real guarantee	**No real guarantee**	**TOTAL amounts**	**TOTAL hedging**
Public Administrations	5 211	322 399	327 610	84 213
Doubtful	792	45 275	46 067	46 067
Financ companies (financ assets)	21 845	10 396	32 241	19 211
Doubtful	21 845	-	21 845	19 211
Companies and business ind	984 303	261 953	1 246 256	427 270
Doubtful	317 955	89 819	407 774	380 656
Non-doubtful	8 007	-	8 007	4 816

Property doubtful	3 538	-	3 538	1 216
Rest of individuals	701	57	758	-
TOTALS	**1 012 060**	**594 805**	**1 606 865**	**530 694**

6. CASH, CASH DEPOSITS AT CENTRAL BANKS AND DEMAND DEPOSITS

The composition of this caption of the consolidated balance sheet at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	**2018**
Cash at hand	13	13
Cash in Bank of Spain	709 633	1 408 355
Mandatory to comply with minimum reserve ratios	709 633	1 408 355
Other demand deposits	74 958	261 118
	784 604	1 669 486

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The total balance under this heading in the consolidated balance sheets at December 31, 2019 and 2018 is made up of trading derivatives.

Transactions involving trading derivatives are mainly related to instruments with which the Institute manages balance sheet positions globally, but which do not meet the requirements to be designated hedging and are therefore classified in the trading portfolio.

Below, there is a breakdown classified by type of derivative, of the fair value of the Group's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at December 31, 2019 and 2018:

	Thousands of Euros					
	Notional		**Assets**		**Liabilities**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
By type of market						
Organised markets	-	-	-	-	-	-
Non – organised markets	804 981	839 894	69 407	109 154	69 313	104 885
	804 981	**839 894**	**69 407**	**109 154**	**69 313**	**104 885**
By type of product						

Swaps	804 981	839 894	69 407	109 154	69 313	104 885
	804 981	**839 894**	**69 407**	**109 154**	**69 313**	**104 885**
By counterparty						
Credit institutions	532 075	508 091	-	1 678	69 313	104 885
Other credit institutions	-	-	-	-	-	-
Other sectors	272 906	331 803	69 407	107 476	-	-
	804 981	**839 894**	**69 407**	**109 154**	**69 313**	**104 885**
By type of risk						
Exchange risk	753 346	784 629	65 526	104 555	65 550	100 437
Interest rate risk	51 635	55 265	3 881	4 599	3 763	4 448
	804 981	**839 894**	**69 407**	**109 154**	**69 313**	**104 885**

The fair value has been calculated for the 100% of the cases, both in 2019 and 2018, taking the implicit curve of the money markets and the public debt as a reference.

At December 31, 2019 and 2018 the trading portfolio classification, stated at fair value and taking the hierarchical order into account as shown in Note 2.2.3, is as follows:

						Thousands of Euros
		2019			**2018**	
	Level I	**Level II**	**Level III**	**Level I**	**Level II**	**Level III**
Derivatives held for trading of assets	-	69 407	-	-	109 154	-
Derivatives held for trading of liabilities	-	69 313	-	-	104 885	-

The following chart shows amounts registered on profit and loss accounts of 2019 and 2018 (Note 30) for variations in the fair value of the Institute's financial instruments included on the trading portfolio, corresponding to unrealized capital gains and losses, distinguishing between financial instruments which fair value is determined by taking as reference listings published in active markets (Level 1), is estimated using a valuation technique which variables are obtained from data observable in the market (Level 2) and others (Level 3):

				Thousands of Euros		
			2019			**2018**
	Profit	**Loss**	**Net**	**Profit**	**Loss**	**Net**
Level 1	-	-	-	-	-	-
Level 2	110 436	109 845	591	116 613	115 590	1 023
Level 3	-	-	-	-	-	-

In 2019 and 2018, changes in the fair value of derivatives classified as level 2 were solely the result of purchase, sales and changes in fair value arising from the application of the valuation techniques described, with no reclassifications between levels.

8. FINANCIAL ASSETS NOT HELD FOR TRADING OBLIGATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of the amount included in this chapter, in the balance sheet at December 31, 2019 and 2018, is as follows:

	Thousands of Euros	
	2019	2018
Equity instruments	-	21 580
Debt securities	-	-

At December 31, 2019, this caption includes a debt instrument, classified as doubtful risk, with accounting hedging of 100% (amount of 40,167 thousand Euros).

In 2019, an income has been registered for the valuation at fair value in the profit and loss account of an amount of 1,984 thousand Euros (profits of 710 thousand Euros in 2018) (Note 31).

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The detail of this caption of the consolidated balance sheet at December 31, 2019 and 2018, per investment, is the following:

	Thousands of Euros	
	2019	2018
Equity instruments:		
FONDICO Pyme (1)	82 159	78 324
FONDICO Infraestructuras II (2)	74 222	165
FONDICO Global (3)	570 688	453 899
FONS MEDITERRANEA Fondo de Capital Riesgo (4)	9 345	6 641
FONDO MARGUERITTE MEH (5)	67 716	53 936
FONDO CARBONO EMPRESAS ESPAÑOLAS (6)	-	-
FEI Fondo Europeo de Inversiones (7)	13 141	12 316
SWIFT (8)	4	4
EDW (9)	238	222
FONDO MARGUERITTE II ICO (10)	-	26 583
FONDO AFS CESCE (11)	10 038	10 000
PARTICIPACIONES GRUPO QUABIT (12)	-	-
	827 551	642 090
Debt securities (13)	998 586	1 029 204

	1 826 137	1 671 294

The balance, net of the tax effect, of caption "Other accumulated comprehensive income" as changes in the fair value these financial instruments at December 31, 2019 and 2018, is the following (Note 21):

	Thousands of Euros	
	2019	**2018**
Debt instruments	2 777	9 884
Equity instruments	36 916	6 369
	39 693	16 253

Variations, during 2019 and 2018, in the caption of financial assets at fair value through other comprehensive income are shown below:

	Thousands of Euros	
	2019	**2018**
Initial balance	1 671 294	1 376 391
Purchase additions	203 780	188 504
Sales and amortizations	(66 677)	(900 709)
Variations for changes in fair value (Note 21)	23 440	19 566
Allocation impairment provision	(5 700)	-
Variations for first application Circular 4/2017. Equity instruments	-	(28 859)
Variations for first application Circular 4/2017, Debt securities	-	1 015 831
Variations for impairment losses (application)	-	1 200
Closing balance	1 826 137	1 671 294

(1) FONDICO Pyme. Venture capital fund constituted on May 1993 and in which the Institute is the sole participant, managed by Axis Participaciones Empresariales. The amount committed by ICO is of 127,866 thousand Euros at December 31, 2018. There is no variation with regards to contributions or returns during 2019 and 2018.

(2) FONDICO Infraestructuras II. New venture capital fund constituted on 2019, fully invested by the Institute and managed by Axis Participaciones Empresariales. In 2019 the Institute's contributions amounted to 74,763 thousand Euros (165 thousand Euros in 2018).

(3) FONDICO Global. Ventura capital fund created in 2014, fully invested by the Institute and managed by Axis Participaciones Empresariales. In 2019, the Institute's contributions amounted to 120,000 thousand Euros (150,000 thousand Euros in 2018). In 2019 the Fund has decreased equity through refund of contributions by

25,000 thousand Euros (50,000 thousand Euros in 2018). The amount committed by ICO and to be reimbursed amounts to 528,000 thousand Euros at December 31, 2019.

(4) FONS MEDITERRANEA. Fund constituted on October 2005 and in which the Institute participates with other public and private entities. The Fund was created to invest in projects developed by Spanish companies in the African Maghreb. The allocations for this fund have a provision hedging of 30% of the total real capital (without including fair value changes) amounting 1,270 thousand Euros at December 31, 2019 (1,270 thousand Euros at December 31, 2018).

(5) FONDO MARGUERITTE MEH. With the participation of leading European public credit institutions, this is a European equity fund which seeks to promote investment in infrastructures, in order to implement the key policies of the European Union in the fight against climate change, with the aim of combining the principle of return to investors based on market policies and the objectives set by public policies. The Fund is managed by ICO, although the final result from its eventual liquidation would not affect the Institute's balance sheet, since it is fully guaranteed by the Spanish Ministry of Tax, which provides funds to finance the Fund. In 2019, new contributions were performed by 3,317 thousand Euros (no contribution in 2018). In 2019 returns of participations were registered for an amount of 1,268 thousand Euros (15,044 thousand Euros in 2018).

(6) FONDO CARBONO EMPRESAS ESPAÑOLAS FC2E. Fund that began operating in 2011, in which the Institute has an interest of 32.68%. The Fund has been subject to liquidation in 2019 (null net value at December 31, 2018). Such liquidation has implied a charge on Reserves (accumulated loss registered in Equity) for an amount of 14,789 thousand Euros (Note 20).

(7) FEI. Participation equal to 0.72% of the total of the European Investment Fund, at December 31, 2019 (0.72% at December 31, 2018). There have not been any contributions at 2019 or at 2018. At December 31, 2019 an amount remained payable by 24,000 thousand Euros.

(8) SWIFT. Participation of the Institute in 1 share of this entity as a full member of the same from 2008.

(9) EDW. A 3.70% participation in Enterprise Data Warehouse, from March 2012.

(10) FONDO MARGUERITTE II ICO. Participation in Fondo Margueritte II, constituted in 2018. The ICO's participation in this Fund, unlike Margueritte I, is on its behalf, with its own financing. The shareholding percentage is of 13.42%. In 2018, the Institute's contributions amounted to 26,931 thousand Euros. In 2019, the Fund has been

subject to liquidation, after the creation of Fondico Infraestructuras II, which has captured investments from the dissolved Fund.

(11) FONDO AFS CESCE. Participation of 13.16% in Fondo AFS Sicav, which main activity is the discount of commercial invoices with guarantee CESCE. In 2019, the Institute has not made any contribution (10,000 thousand Euros in 2018).

(12) PARTICIPACIONES GRUPO QUABIT. In 2019, as payment for several loan operations, ICO foreclosed several shares of QUABIT group, for a foreclosure amount of 5,700 thousand Euros. These shares are fully covered by accounting provisions, and therefore their net value is null.

(13) As part of its liquidity management policy and business models, ICO is able to invest in debt instruments, classified as financial assets at fair value through other comprehensive income. In general, they are fixed income securities, issued by Spanish credit institutions and Public Debt.
The detail of these assets per maturities is the following:

	Thousands of Euros	
	2019	**2018**
Maturity up to 1 year	998 586	1 029 204
Maturity from 1 to 2 years		-
Maturity from 2 to 3 years		-
Maturity over 3 years		-
	998 586	1 029 204

At December 31, 2019 and 2018, the classification of financial assets at fair value through other comprehensive income, taking the hierarchical level into account as shown in Note 2.2.3., is as follows:

	Thousands of Euros					
	2019			**2018**		
	Level I	**Level II**	**Level III**	**Level I**	**Level II**	**Level III**
Debt securities	998 586			1 029 204		
Equity instruments		827 551			642 090	

During 2019, the Institute has not registered on the profit and loss account results from the write-off of financial assets at fair value through other comprehensive income as a consequence of the sale of equity instruments (profit of 1,695 thousand Euros in 2018) (Note 28).

10. FINANCIAL ASSETS AT AMORTIZED COST

The composition of this caption on the consolidated balance sheets at December 31, 2019 and 2018 is the following (including impairment losses and other valuation adjustments):

	Thousands of Euros	
	2019	2018
Debt securities (Note 10.1)	7 843 423	9 503 883
Loans and advances:	20 626 023	22 497 970
Credit institutions (Note 10.2)	10 215 054	12 436 479
Customers (Note 10.3)	10 410 969	10 061 491
	28 469 446	32 001 853

The variation of impairment losses registered for the credit risk coverage and their accumulated amount at the beginning and closing of 2019 and 2018 of the portfolio of financial assets (debt instruments) has been the following:

				Thousands of Euros
	Risk for country risk	Provision for doubtful risk and normal risk under special surveillance	Provision for normal risk	Total
Balance at 1 January 2018	19 205	1 072 370	18 680	1 110 255
Allocations charged to results	-	-	5 116	5 116
Recoveries	(6 539)	(94 679)	-	(101 218)
Application of funds	-	(286 406)	-	(286 406)
Other variations	(9 697)	124 373	7 285	121 961
Adjustments for exchange differences	-	2 469	-	2 469
Allocations charged to results	(81)	33	6	(42)
Balance at 31 December 2018	2 888	818 160	31 087	852 135
Allocations charged to results	1 765	15 173	2 304	19 242
Recoveries	(265)	(107 950)	(2 194)	(110 409)
Application of funds	-	(108 895)	-	(108 895)
Other variations	-	-	-	-
Adjustments for exchange differences	35	(314)	(7)	(286)
Balance at 31 December 2019	4 423	616 174	31 190	651 787

The following table details provisions for doubtful risks and normal risks in watch-list based on determination criteria:

	Thousands of Euros	
	2019	2018
Provision for doubtful risks:	438 868	597 041
Default	108 867	239 525
Other than default	330 001	357 516
Provision for performing risk in watch-list	177 306	221 119
TOTAL	616 174	818 160

The provision for performing risk in watch-list corresponds to credit assets for an amount of 1,202,721 thousand Euros at December 31, 2019 (1,703,499 thousand Euros at December 31, 2018).

The table below provides a breakdown of financial assets classified as loans and receivables considered impaired due to their credit risk at December 31, 2019 and 2018, by counterparty and period elapsed from the amount unpaid at said dates and the age of the risk. Impaired assets guaranteed by the State are disclosed in Note 10.3.

Impaired assets at 31 December 2019

	Thousands of Euros								
	Without delay	3-6 months	6-9 months	9-12 months	12-15 months	15-18 months	18-21 months	More than 21 months	TOTAL
By counterparty category -									
Non-financial companies	378 815	-	-	-	-	21 410	730	86 727	487 682

Impaired assets at 31 December 2018

	Thousands of Euros								
	Without delay	3-6 months	6-9 months	9-12 months	12-15 months	15-18 months	18-21 months	More than 21 months	TOTAL
By counterparty category -									
Non-financial companies	396 431	1 622	-	-	371·	-	2 004	236 469	636 897

As of December 31, 2019 there is a balance of assets impaired by country risk of 212,406 thousand Euros, with a hedging per country risk of 4,423 thousand Euros (192,528 thousand Euros at December 31, 2018 with a hedging of 2,888 thousand Euros).

The amount of non-impaired past due assets for 2019 and 2018 has been of 16,967 thousand Euros and 3,163 thousand Euros, respectively, with an age in both years of between one and three months.

The movement of the impaired financial assets derecognized from the asset when their recovery is deemed to be remote (failed) is as follows:

	Thousands of Euros	
	2019	2018
Opening balance	1 661 991	1 370 450
Additions:	69 708	325 615
Remote recoveries	66 707	268 200
Other causes	3 001	57 415
Recoveries:	(54 266)	(35 682)
Refinancing or restructuring	(766)	
Cash collection without additional financing		(3 770)
Asset allocation	(53 500)	(31 912)
Definitive write-offs: other causes	-	-
Net variation for exchange difference	683	1 608
Closing balance	1 678 116	1 661 991

The net amount included on the accompanying profit and loss account of 2019 and 2018 as a consequence of the variation of assets which recovery is deemed remote (failed assets) amounts to profits by 16,610 thousand Euros and 3,770 thousand Euros, respectively (caption “Impairment (reversal) of the value of financial assets”).

10.1 Debt securities

The caption “Debt securities” includes the amount of financial assets valued at amortized cost, of fixed income and supported without securities, tradeable or non-tradeable.

This caption of “Debt securities” includes the amount of financial assets, non-tradable, which was converted, along 2013, into a syndicated loan of the ‘Credit facilities system for Suppliers Payments Funding’, and which at the end of 2012, was included under “Loans and Clients credit- Resident Public Administrations”.

On the other hand, in late 2013, the Institute’s Operations Committee approved the document Annex 5 to ICO Contract Mediation lines framework 2015, to regulate the conditions and operational to which the conversion operation is subject to the conversion to bonds of loans made by Entities in ICO lines in 2015. Such approval included the general specifications for conversion susceptible lines, amounts, interest accruals, eligible entities, schedule and compensation to credit institutions were included. Debt securities resulting from the conversion of loans mediation are also included in the heading “Debt securities”.

The composition of this caption of the consolidated balance sheet at December 31, 2019 and 2018, based on the counterparty category, is the following:

	Thousands of Euros	
	2019	2018
Per counterparty category -		
Resident Public Administrations	7 115 605	7 850 053
Resident Credit Institutions	320 883	1 340 473
Other resident sectors	346 254	283 429
Other non-resident sectors	60 681	29 928
	7 843 423	9 503 883

The detail per maturity terms at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	2018
Per maturity		
Up to 1 year	1 930 549	1 831 729
From 1 to 2 years	1 757 506	1 569 088
From 2 to 3 years	2 761 383	2 003 845
From 3 to 4 years	981 509	3 059 888
From 4 to 5 years	240 687	978 832
More than 5 years	171 789	60 501
	7 843 423	9 503 883

At December 31, 2019 these assets, accrued an annual interest rate of 0.51% (0.51% at December 31, 2018).

Interest accrued by these assets in 2019 and 2018 amounted to 43,640 thousand Euros and 45,590 thousand Euros, respectively, included under caption “Interests and similar income” of the consolidated profit and loss account (Note 24).

The Institute has coverage for credit risk (normal risk) of 2,039 thousand Euros for these assets (299 thousand Euros at December 31, 2018).

Variations undergone during 2019 and 2018 in caption of Debt securities are the following:

	Thousands of Euros	
	2019	2018
Opening balance	9 503 883	10 107 611
Additions for purchases	3 470 279	6 475 948
Variations for impairment losses	(1 740)	(299)
Amortizations and sales	(5 128 999)	(7 079 377)
Closing balance	7 843 423	9 503 883

10.2 Loans and advances to Credit Institutions

The composition of this caption of the consolidated balance sheet at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	**2018**
By nature -		
Deposits in credit institutions (Note 10.2.1)	44 509	1 995 000
Mediation loans (Note 10.2.2)	9 431 246	9 980 934
Other loans to credit institutions (Note 10.2.3)	752 240	486 437
	10 227 995	12 462 371
(Impairment losses)	(4 170)	(4 168)
Other valuation adjustments (*)	(8 771)	(21 724)
	10 215 054	12 436 479

(*) Valuation adjustments mainly correspond to the accrual of interests and similar revenues, as well as a correction for financial commissions.

10.2.1 Deposits in credit institutions

The following table details the balance of “Deposits in credit institutions”, grouped by maturity, at December 31, 2019 and 2018:

	Thousands of Euros	
	2019	**2018**
Up to 1 year	44 509	1 995 000
From 1 to 2 years	-	-
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	44 509	1 995 000

During 2019, the caption “Deposits in credit institutions” accrued an average annual interest of 0.21% (-0.25% during 2018). All deposits included are time deposits as of December 31, 2019 and 2018.

(Negative) interests accrued during 2019 and 2018 for these loans have amounted a total of (3,968) and (7,273) thousand Euros, respectively, which are included under the heading “Interest and similar expenses” of the profit and loss account (Note 25).

10.2.2 Mediation loans

The Agreement of the Council of Ministers of February 26, 1993, opened a mediation loan line in the Institute, as the Group’s parent company, to help finance small and medium enterprises. This line is instrumented through loans granted by the Institute to various credit institutions, which formalized the loans with the respective companies. During successive years this policy has continued, approving each year different lines for different amounts and objectives, always focusing on the Spanish SMEs.

In operations classified as mediation loans granted until December 31, 1997, ICO assumed a percentage of credit risk that the entity receiving the funds holds, in turn, with the ultimate borrowers. Since that date, the “Institute” does not assume any risk of insolvency of final borrowers, except in certain liquidity lines 2009-2012.

Inside mediation lines implemented between 2009 and 2012 are certain ICO lines with liquidity risk, for SMEs (no exposure at December 31, 2019, 33 million Euros at December 31, 2018). In these lines, ICO assumes a generic and comprehensive risk presented by the failed mediators credit institutions, up to 5% of the amount of the provisions made for lines granted in 2009 and 2010, while for the lines granted in 2011 and 2012, the maximum risk assumed is the average default of credit institutions sector excluding real estate finance transactions. During 2019 and 2018, no new lines have been approved in which the Institute assumes risk.

For all ICO risk mediation lines, the Institute has established a provision at December 31, 2019 92,477 thousand Euros (90,752 thousand Euros at December 31, 2018) (Note 19). The allowances have as initial reference the interest income generated for the Institute by these lines of mediation, adjusting exceptionally as expected developments failed to take by ICO. In the event that finally recognized provisions are insufficient to cover the failed submitted, the difference will be charged directly to the RDL Fund 12/95, without generating any losses for ICO.

The detail of the balance of mediation loans at December 31, 2019 and 2018 per years of maturity is the following:

	Thousands of Euros	
	2019	**2018**
Up to 1 year	3 103 269	3 652 112
From 1 to 2 years	2 134 945	2 143 451
From 2 to 3 years	1 454 810	1 462 990
From 3 to 4 years	907 508	881 817
From 4 to 5 years	587 615	568 285
More than 5 years	1 243 099	1 272 279
	9 431 246	9 980 934

At December 31, 2019 and 2018, the mediation loans accrued an annual average interest rate of 1.18% and 1.32%, respectively.

Interests accrued during 2019 and 2018 for mediation loans have amounted to 97,846 thousand Euros and 148,773 thousand Euros, respectively, included on caption “Interests and similar income” of the profit and loss account (Note 24).

10.2.3 Other loans to credit institutions

This caption includes balances for direct loan operations (without mediation) to credit institutions.

The detail of the balance of these loans at December 31, 2019 and 2018 detailed per years of maturity is the following:

	Thousands of Euros	
	2019	2018
Up to 1 year	73 357	89 904
From 1 to 2 years	137 285	36 785
From 2 to 3 years	123 983	110 441
From 3 to 4 years	84 465	48 808
From 4 to 5 years	81 588	45 384
More than 5 years	251 562	155 115
	752 240	486 437

At December 31, 2019 and 2018, loans to credit institutions accrued an annual average interest rate of -0.21% and -0.25%, respectively.

Interests accrued during 2019 and 2018 by these loans have amounted to 22,211 thousand Euros and 12,085 thousand Euros, respectively, included on caption “Interests and similar income” of the profit and loss account (Note 24).

This caption includes an amount of impairment losses, for risk of bad debt (credit risk and country risk), for a total of 4,170 thousand Euros (4,168 thousand Euros at December 31, 2018) (Note 10).

10.3 Customer loans and advances

The composition of this caption of the consolidated balance sheet at December 31, 2019 and 2018, based on the counterparty category, is the following:

	Thousands of Euros	
	2019	2018
By counterparty category -		
Resident Public Administrations	2 772 946	2 675 697
Non-resident Public Administrations	158 943	110 935
Other resident sectors	6 978 818	6 886 746
Other non-resident sectors	995 302	920 908
Other financial assets	28 909	262 982

	10 934 918	10 857 268
(Impairment losses)	(645 578)	(847 666)
Other valuation adjustments (*)	121 629	51 889
	10 410 969	10 061 491

(*) Valuation adjustments mainly correspond to the accrual of interests and similar revenues, as well as to corrections for commissions.

The book value of certain investments in some Economic Interest Groupings is included in "Other resident sectors" (1,002 thousand Euros at December 31, 2019 and 926 thousand Euros at December 31, 2018) considering that are assured-return structures. Profitability of these shares has a fiscal-financial component due to the fact that these entities negative taxable bases are included in the Institute's taxable base. In order to adjust the fiscal-financial profits obtained along with the final result determined for the investment, a provision is registered annually on the Income tax heading in the consolidated profit and loss account (Notes 19 and 23).

Interests accrued, during 2019 and 2018, for these loans have amounted to 158,866 thousand Euros and 161,087 thousand Euros, respectively, which are included on caption "Interest income" of the profit and loss account (Note 24).

Out of the above counterparty balances, some information is provided below regarding the transactions guaranteed by the State, set out by counterparty and type of instrument, included under "Other resident sectors" and "Resident Public Administrations", which are classified under the heading 'Loans and advances to client' at December 31, 2019 and 2018:

	Thousands of Euros	
	2019	**2018**
Balances included under "Resident Public Administrations"		
Loans to the national government	1 547 921	947 393
Loans to regional governments	1 225 025	1 728 304
Valuation adjustments	(119 451)	(181 644)
	2 653 496	2 494 053
Balances included under "Other resident sectors"		
Doubtful assets	23 159	25 810
Loans to other public entities	2 329 563	2 222 743
Loans to other sectors guaranteed by the State	199 263	169 975
	2 551 985	2 418 528
Total operations guaranteed by the State	5 205 481	4 912 581

The breakdown of "Loans to Central Government", excluding valuation adjustments, is as follows at December 31, 2019 and 2018:

	Thousands of Euros	
	2019	**2018**

Loans to the State and its Autonomous Entities	1 545 772	943 181
Accounts receivable from the Public Treasury	2 149	4 212
	1 547 921	947 393

The caption of “Accounts receivable from the Public Treasury” includes amounts liquidated by the Institute to the Public Treasury, pending from being effective under the concept of Subsidiaries, for the adjustment of interest rates differentials in mediation loans. These accounts, which are carried at their nominal value, do not accrue any interest.

Interest and similar income contributed to the profit and loss by public sector entities for 2019 and 2018 (Note 24) are the following:

	Thousands of Euros	
	2019	**2018**
Central government	4 408	6 032
Regional governments	11 550	13 980
Other public sector entities	20 805	20 303
	36 763	40 315

The breakdown of the principal amounts of loans included under the heading ‘Loans and advances to clients’, including measurement adjustments, and set out by maturity date at December 31, 2019 and 2018, is as follows:

	Thousands of Euros	
	2019	**2018**
By maturity		
Up to 1 year	1 192 265	1 531 496
From 1 to 2 years	824 422	1 010 704
From 2 to 3 years	1 659 035	1 130 047
From 3 to 4 years	1 145 859	1 489 899
From 4 to 5 years	1 082 018	1 104 905
More than 5 years	5 152 948	4 642 105
	11 056 547	10 909 156

At December 31, 2019 and 2018, loans to clients accrued an annual average interest rate of 1.45% and 1.39%, respectively.

At December 31, 2019, the Institute has not registered profits or losses on the profit and loss account for financial operations derived from the write-off of assets included on caption “Loans and receivables” (neither at December 31, 2018) (Note 28).

11. HEDGING DERIVATIVES

This caption in the accompanying consolidated balance sheet records the hedging instruments carried at fair value in accordance with the explanation provided in Note 2.3.

Derivatives contracted and the hedged items were fundamentally the following:

- Interest-rate swaps, which hedge financial instruments remunerated at a rate other than the Euribor, mainly issues from the Group.
- Exchange hedges, which cover changes in fair value and cash flows relating to several financial instruments.

The measurement methods used to determine the fair value of derivatives have been the discounted-cash-flow method, to measure interest rate derivatives and exchange risk derivatives.

Total notional values of derivatives and fair values of financial derivatives designated as “Hedging derivatives” at December 31, 2019 and 2018, by counterparty and risk (all contracted in non-organized OTC markets), are as follows:

	Thousands of Euros					
	Notional		Assets		Liabilities	
	2019	2018	2019	2018	2019	2018
By type of hedging						
Fair value hedges	8 835 564	7 296 142	363 635	460 472	197 810	123 514
Cash flow hedges	3 370 415	2 992 279	29 718	25 383	42 435	130 291
	12 205 979	**10 288 421**	**393 353**	**485 855**	**240 245**	**253 805**
By type of product						
Swaps	12 205 979	10 288 421	393 353	485 855	240 245	253 805
	12 205 979	**10 288 421**	**393 353**	**485 855**	**240 245**	**253 805**
By counterparty						
Credit institutions	12 205 979	10 288 421	393 353	485 855	240 245	253 805
Other credit institutions	-	-	-	-	-	-
Other sectors	-	-	-	-	-	-
	12 205 979	**10 288 421**	**393 353**	**485 855**	**240 245**	**253 805**
By type of risk						
Risk of exchange	5 699 100	5 551 535	225 919	263 298	197 810	152 389
Interest rate risk	6 506 879	4 736 886	167 434	222 558	42 435	101 416
	12 205 979	**10 288 421**	**393 353**	**485 855**	**240 245**	**253 805**

At December 31, 2019 and 2018, the classification of hedging derivatives, valued at fair value, based on level hierarchies established on Note 2.2.3., is the following:

	Thousands of Euros					
			2019			2018
	Level I	Level II	Level III	Level I	Level II	Level III
Derivatives of assets	-	393 353	-	-	485 855	-
Derivatives of liabilities	-	240 245	-	-	253 805	-

The fair value of these items has been calculated in 100% of the cases, both in 2019 and in 2018, taking as reference the implicit curves of the money.

Once the IFRS 13 of January 1, 2013 has become effective, the Institute included for the derivative instruments valuation, the corresponding risk valuation adjustments from counterparties and its own (Notes 7 and 30).

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The variation of this caption of the consolidated balance sheets during 2019 and 2018 is the following:

	Thousands of Euros
	Associates
Balance at 1 January 2018	**58 860**
Additions	2 422
Withdrawals	-
Other variations	(424)
Impairment	-
Balance at 31 December 2018	**60 858**
Additions	
Withdrawals	(2)
Other variations	4 203
Impairment	
Balance at 31 December 2019	**65 059**

Annex I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at December 31, 2019 and 2018.

The caption "Other variations" includes consolidation adjustments. In 2019, the investment on an investee was reduced (in 2018, the shareholding in one of the Group's investees increased).

13. PROPERTY, PLANT AND EQUIPMENT

The variation during 2019 and 2018 in accounts of property, plant and equipment and their corresponding accumulated amortization, has been the following:

	Thousands of Euros			
	Buildings of own use	**Furniture, vehicle and other assets**	**Property investments**	**Total**
Cost				
Balances at 1 January 2019	114 071	15 970	-	130 041
Additions	515	363		878
Disposals and other write-offs	-	(233)		(233)
Balances at 31 December 2019	114 586	16 100		130 686
Accumulated amortization				
Balances at 1 January 2019	33 147	8 134	-	41 281
Allocations	1 815	199		2 014
Transfers and other variations		(233)		(233)
Balances at 31 December 2019	34 962	8 100		43 062
Impairment losses				
At 31 December 2019		651		651
Net property, plant and equipment				
Balances at 31 December 2019	79 624	7 359		86 973
Cost				
Balances at 1 January 2018	113 980	15 838	-	129 818
Additions	91	132	-	223
Disposals and other write-offs	-	-	-	-
Balances at 31 December 2018	114 071	15 970	-	130 041
Accumulated amortization				
Balances at 1 January 2018	31 374	7 816	-	39 190
Allocations	1 773	318		2 091
Transfers and other variations	-	-	-	-
Balances at 31 December 2018	33 147	8 134	-	41 281
Impairment losses				
At 31 December 2018	-	651	-	651
Net property, plant and equipment				
Balances at 31 December 2018	80 924	7 185	-	88 109

At December 31, 2019 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 18,489 thousand Euros (16,912 thousand Euros at December 31, 2018).

In compliance with Institute's policy, as the Group's parent company, all property, plant and equipment is insured at December 31, 2019 and 2018.

Transitional Provision One, section B).6 of Bank of Spain Circular 4/2004, allows any asset recorded under Property, plant and equipment to be carried at its fair value. To implement this measurement adjustment, the Group carried out the relevant appraisals of property used in operations, which allowed the value of the Group's property, plant and equipment to be increased by 53,106 thousand Euros. A restatement reserve was recorded for the resulting capital gain, net of the tax effect. The restated book value will be applied as an attributed cost at that date.

The revaluation reserve at December 31, 2019 amounted to 20,858 thousand Euros (23,591 thousand Euros at December 31, 2018) (Note 20).

The table below presents the fair value of certain items of the Group's property, plant and equipment at December 31, 2019 and 2018 by category, along with the related carrying amounts at those dates:

				Thousands of Euros
	2019	**2019**	**2018**	**2018**
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Property, plant and equipment for own use	86 973	108 474	88 109	113 981
Buildings	79 624	101 164	80 924	106 796
Other	7 359	7 310	7 185	7 185
Property investments	-	-	-	-
Property under construction	-	-	-	-

The fair value of property, plant and equipment in the preceding table was estimated as follows:

- For those assets for which an updated appraisal by a Bank of Spain-approved value is not available, fair value was determined based on estimates made by the entity using market data relating to trends in prices of similar assets.
- For those assets for which an updated appraisal by a Bank of Spain-approved value is available, fair value was determined based on the appraisal as provided for in the Ministerial Order 805/2003.

All properties for own use were appraised by a Bank of Spain approved appraiser using the comparison approach, at December 31, 2019 and 2018.

14. INTANGIBLE ASSETS

The breakdown of Intangible assets in the consolidated balance sheet at December 31, 2019 and 2018 relates exclusively to the account named 'other intangible assets'.

		Thousands of Euros	
	Estimated useful life	**2019**	**2018**
With indefinite useful life	-	-	-
With defined useful life	3 to 10 years	43 790	41 971
Gross total		43 790	41 971
Of which:			
Internal developments	3 years	38 341	36 597
Remainder	10 years	5 449	5 374
Accumulated depreciation		(34 731)	(32 829)
With indefinite useful life		(2 137)	(2 137)
		6 922	7 005

All intangible assets at December 31, 2019 and 2018 related to computer software. Fully amortized intangible assets at December 31, 2019 amounted to 31,002 thousand Euros (26,574 thousand Euros at December 31, 2018).

15. TAX ASSETS AND LIABILITIES

The detail of Tax Assets and Liabilities at December 31, 2019 and 2018 is the following:

	Thousands of Euros			
	Assets		**Liabilities**	
	2019	**2018**	**2019**	**2018**
Current taxes:	8 557	2 985	1 005	957
Corporate income tax (Note 23)	8 510	2 737	-	-
VAT	47	248	183	33
Personal income tax withholdings	-	-	479	462
Social Security contributions	-	-	343	462
Deferred taxes:	95 053	98 001	32 943	22 897
Impairment losses on credits, loans and discounts	69 259	66 529	-	-
Measurement of cash-flow hedges (Note 21)	25 794	31 472	-	-
Restatement of property	-	-	15 932	15 932
Restatement of financial assets held for sale (Note 21)	-	-	17 011	6 965
	103 610	100 986	33 948	23 854

Variations undergone, during 2019 and 2018, on balances of deferred tax assets and liabilities are shown below:

	Thousands of Euros			
	Assets		Liabilities	
	2019	2018	2019	2018
Opening balance	98 001	134 319	22 897	14 512
Impairment losses on credits, loans and discounts	2 730	(13 119)	-	-
Valuation of cash flow hedges (Note 21)	(5 678)	(23 199)	-	-
Restatement of property	-	-	-	-
Restatement of financial assets held for sale (Note 21)		-	10 046	8 385
Closing balance	95 053	98 001	32 943	22 897

16. OTHER ASSETS AND OTHER LIABILITIES

The composition of this caption in the consolidated balance sheet at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
OTHER ASSETS	2019	2018
Other assets	5 344	3 346
Accruals	30 799	31 519
	36 143	34 865

The heading “Accruals” includes, among other items, the accrual of fees receivable by the Institute, as the Group’s parent company, for the Management of Operational mechanisms Fund for the Financing of Payments to Suppliers and operational management of Autonomous Region Liquidity Fund and for the operational management of the Financing Fund to Autonomous Communities (Note 1.1). In 2019, the overall amount of these fees receivable for ICO is 25 million Euros per year (25 million Euros at December 31, 2018), also recorded in the profit and loss account for these amounts within the section of “Fee income” (Note 28).

The composition of the balance of "Other liabilities" of the balance sheet at December 31, 2019 and 2018 is the following:

OTHER LIABILITIES	**Thousands of Euros**	
	2019	**2018**
Other liabilities	560	1 445
Accruals	7 277	4 926
	7 837	6 371

Under the heading "Accruals" includes the amounts accrued and unpaid, for commissions to be paid to credit institutions by the concepts of "rappel 2019 lines of mediation" by 3,206 thousand Euros (1,500 thousand Euros in 2018).

17. NON-CURRENT ASSETS HELD FOR SALE

The entire amount in the heading "Non-current assets held for sale" includes assets awarded in foreclosed. None of these foreclosed assets recorded on this heading at December 31, 2019 and December 31, 2018 comes from any funding related neither to Property development land nor to any other property development business.

Movements for years 2019 and 2018 in the balances under this balance sheet heading are shown below:

	Thousands of Euros		
	Cost	**Impairment**	**Total**
Balance at 1 January 2018	72 443	(72 421)	22
Additions	125	(147)	(22)
Withdrawals/Applications	(245)	245	-
Transfers	-		
Balance at 31 December 2018	72 323	(72 323)	-
Additions	934		934
Withdrawals/Applications	(5 572)	(4 638)	(934)
Transfers			
Balance at 31 December 2019	67 685	(67 685)	-

Over the total amount of "Non-current assets held for sale" at December 31, 2019 and 2018, 48,678 thousand Euros corresponds to a single asset, which is fully provisioned.

In 2019, impairment allocations have been registered for these non-financial assets, for an amount of 316 thousand Euros (148 thousand Euros in 2018).

In 2019, results from the sale of non-current assets held for sale have been registered, for an amount of 2,910 thousand Euros (no results in 2018).

The Institute's Board of Directors body gives its approval annually to the Disinvestment Plan referred to these assets.

Pursuant to standard 60th of Circular 4/2017 of the Bank of Spain, non-current assets held for sale are classified into broad categories: soil, urban and urbanizing splitting rustic and constructions, distinguishing between residential, industrial and commercial uses. On the following chart are included Appraisal Companies, its methodology to appraise the assets and the amount given to each of it (company/agency):

INDUSTRIAL USE BUILDINGS

Thousands of € las appraisal	Appraiser	Appraisal methodology
2,296	GESVALT	COST AND COMPARISON
2,296		

RESIDENTIAL USE BUILDINGS

Thousands of € las appraisal	Appraiser	Appraisal methodology
429	GRUPO TASVALOR	COMPARISON
5	VALTECNIC	COMPARISON
410	EUROVAL	COMPARISON
12	TINSA	COMPARISON
109	JUDICIAL	COMPARISON
85	ALIA TASACIONES	COST AND COMPARISON
194	GRUPO TASVALOR	COST AND COMPARISON
1,244		

TERTIARY USE BUILDINGS

Thousands of € las appraisal	Appraiser	Appraisal methodology
809	EUROVAL	COMPARISON
11	GRUPO TASVALOR	COMPARISON
90	GRUPO TASVALOR	COST
44	GRUPO TASVALOR	DYNAMIC RESIDUAL
954		

RUSTIC LANDS

Thousands of € las appraisal	Appraiser	Appraisal methodology
54	GRUPO TASVALOR	COMPARISON
42	ALIA TASACIONES	COMPARISON
1	EUROVAL	COMPARISON
8	JUDICIAL	COMPARISON
25	GRUPO TASVALOR	COST AND COMPARISON
59	EUROVAL	RENT UPDATE

57	GRUPO TASVALOR	RENT UPDATE
6	GRUPO TASVALOR	OTHER
177	JUDICIAL	OTHER
429		

		URBAN AND DEVELOPABLE LANDS
Thousands of € las appraisal	**Appraiser**	**Appraisal methodology**
862	GRUPO TASVALOR	COMPARISON
20	GRUPO TASVALOR	STATIC RESIDUAL
9,173	GRUPO TASVALOR	DYNAMIC RESIDUAL
6	EUROVAL	DYNAMIC RESIDUAL
31	GESVALT	DYNAMIC RESIDUAL
50	GRUPO TASVALOR	OTHER
10,142		
TOTAL 15,065		

18. FINANCIAL LIABILITIES AT AMORTIZED COST

The items that make up the balances recorded under the accompanying consolidated balance sheet heading are as follows.

	Thousands of Euros	
	2019	**2018**
By counterparty categories		
Deposits Central Banks (Note 18.1)	499 902	-
Deposits credit institution (Note 18.2)	8 477 599	9 447 789
Deposits customers (Note 18.3)	699 313	988 040
Issued debt securities (Note 18.4)	15 734 424	19 147 495
Other financial liabilities (Note 18.5)	401 952	711 847
	25 813 190	30 295 171

18.1 Deposits in Central Banks

In 2019, ICO resorted to the TLTRO III of the European Central Bank. The amount of this caption corresponds to such operation (no balance in 2018).

18.2 Deposits in credit institutions

The composition of this caption of the balance sheets at December 31, 2019 and 2018 based on the nature of operations is the following:

	Thousands of Euros	
	2019	**2018**
By nature:		
Loans from the European Investment Bank	7 295 224	8 196 933
Interbank loans	89 463	152 200
Loans from other credit institutions	1 020 921	1 025 509
Valuation adjustments – accruals	71 991	73 147
	8 477 599	9 447 789

Interbank deposits fall due within less than one year from December 31, 2019 and 2018, respectively.

Loans from the European Investment Bank present the following final repayment schedule:

	Thousands of Euros	
	2019	**2018**
Up to 1 year	1 863 362	1 819 950
From 1 to 2 years	1 815 493	1 857 299
From 2 to 3 years	1 379 171	1 814 061
From 3 to 4 years	606 633	1 177 833
From 4 to 5 years	581 375	583 326
More than 5 years	1 049 190	944 464
	7 295 224	8 196 933

The breakdown by maturity date of “Loans from other credit institutions” is as follows:

	Thousands of Euros	
	2019	**2018**
Up to 1 year	193 410	193 395
From 1 to 2 years	322 914	186 616
From 2 to 3 years	142 490	339 168
From 3 to 4 years	78 824	140 783
From 4 to 5 years	78 824	48 912
More than 5 years	204 459	116 635
	1 020 921	1 025 509

18.3 Customers' deposits

The composition of this caption of the consolidated balance sheets at December 31, 2019 and 2018 based on the sector is the following:

	Thousands of Euros	
	2019	**2018**
By counterparty category		
Public Administrations	626 974	917 067
Other resident sector (1)	72 329	70 534
Other non-resident sectors	-	
Valuation adjustments – accruals	10	439
	699 313	988 040

(1) Out of which, at December 31, 2019 and 2018, 58,699 thousand Euros and 66,403 thousand Euros, respectively, were demand accounts.

At December 31, 2019 and 2018, the detail by nature of the balance registered on "Public Administrations" is the following:

	Thousands of Euros	
	2019	**2018**
Reciprocal Interest Adjustment Agreement (C.A.R.I.)	3 563	2 920
Public Administration Current Accounts and other items	623 411	914 147
	626 974	917 067

18.4 Issued debt securities

The detail of this caption at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	**2018**
Bonds and debentures issued	15 499 902	18 724 473
Valuation adjustments (*)	234 522	423 022
	15 734 424	19 147 495

(*)Including transaction costs and value corrections for accounting hedging

Variations of this caption, during 2019 and 2018, have been the following:

	Thousands of Euros	
	2019	**2018**
Opening balance	18 724 473	22 124 860
Issues	23 787 604	37 621 464
Amortizations and depreciations	(27 071 203)	(41 277 094)
Exchange differences	59 028	255 243
Closing balance	15 499 902	18 724 473

Set out below are the main characteristics of the debenture issues outstanding at December 31, 2019 and 2018, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues					Thousands of Euros	
2019	**2018**	**Currency**	**Redemption date**	**Annual interest rate**	**2019**	**2018**
1	3	Norwegian Krone	Until 2021	From 4.28 to 5.36	50 690	119 668
1	1	Canada Dollar	Until 2020	From 4.53 to 5.00	171 256	160 205
52	43	US Dollar	Until 2021	Several rates	4 895 865	4 904 683
55	78	Euro	Until 2026	Several rates	9 717 570	13 065 734
2	3	Swiss Franc	Until 2024	From 2 to 3.25	276 373	266 195
2	1	Australia Dollar	Until 2023	1.95	236 053	58 237
1	1	Sweden Krone	Until 2022	0.963	47 862	48 758
3	4	Yen	Until 2030	From 0.52 to 2.9	104 233	100 993
					15 499 902	18 724 473

A breakdown of each issue may be consulted on the Institute's webpage (www.ico.es), as the Group's parent company, in "Investments - Issues of reference".

In 2019 the total financial cost of debenture loans in both Euros and foreign currency recorded under the heading 'Interest and similar charges' in the profit and loss account was 544,513 thousand Euros, which is an average annual interest rate of 2.63% (1.31% with accounting hedges). In 2018 financial costs amounted 660,524 thousand Euros, which was an average annual interest rate of 3.48% (1.49% with accounting hedges) (Note 25).

As of 2019, no results have been recorded for financial operations derived from the repurchase of certain financial liabilities at amortized cost (bonds and debentures issued by ICO). In 2018, losses registered for the same concept amounted to 941 thousand Euros (amount includes the result of the cancellation of derivatives associated repurchased cover these emissions)., recorded in the caption of 'Gains or losses on financial assets and liabilities not measured at fair value' (Note 29).

18.5 Other financial liabilities

The composition of this caption of the consolidated balance sheets at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	2018
Treasury Funds	368 533	444 479
Other concepts	33 419	267 368
	401 952	711 847

“Treasury funds” include funds received by the Group and repayable under the attaching terms of each. Detailed information on the lines associated with each of these funds can be found on the Institute’s website www.ico.es .

Funds associated with the most important lines are the following:

- Línea FOMIT – Renove Turismo (FOMIT - Tourism line): this line is to provide financial support to financial projects aimed to renovation and modernization of infrastructure and tourist destinations.
- Línea Avanza: this line with ICO supports and funds the access of citizens and companies to new information technologies (broadband and technological support needed for it). Is implemented, depending on their target, in TIC loans (small and medium enterprises) young people and university students loans (specific group) and digital citizenship loan (citizens in general).
- Línea Préstamos Renta Universidad: this line is to guarantee a future income for postgraduate studies as a Doctorate or a Master degree for 2011-2012.
- Línea Futur E: This line is to provide incentives for projects in support of sustainable tourism, helping to redirect current tourist activity with a view to sustainability and ecological efficiency, taking into account variables related to the environment and sustainable development, in order consolidate the position of Spanish tourism at the vanguard of the rational use of energy, the use of renewable energies, the reduction of the water footprint, and waste management.

Unlike other of the Group’s mediation lines, which are funded through market fundraising by ICO, the financial funds designated to these operations are provided directly by the state, being instrumented through Institute’s opened accounts on behalf of the correspondent Ministries. These funds balance, corresponds to the amount provided by formal transactions that are also listed under the heading of ‘Loans and receivables’ (net amounts, less unamortized willing), so that amount plus the balance of the associated current account (which reflects the balance of the above lines) is always equal to the amount received by the Institute for the provisioning of the line.

Balances at December 31, 2019 and 2018 of such funds are shown below:

	Thousands of Euros	
	2019	2018
FOMIT – Renove Turismo	118 485	169 545
Avanza	-	439
Préstamos Renta Universidad	120 585	142 325
Futur E	18 074	43 334
Other	144 808	88 836
	401 952	444 479

'Other items' includes the amount corresponding to the constitution of ICO Innovation Fund 2013-2015, for the financing of specific mediation lines for SMEs and Self-employed, with funds from ICO and the ERDF (248,607 thousand of Euros at December 31, 2018). This Technological Fund has been subject to liquidation, in 2019, generating results by 2,595 thousand Euros, registered in the Profit and Loss Account within the caption "Commissions perceived".

19. PROVISIONS

At December 31, 2019 and 2018 the detail of this caption of the accompanying consolidated balance sheet is the following:

	Thousands of Euros	
	2019	2018
Provisions for pensions and similar obligations	579	919
Provisions for contingent risks and commitments	7 778	1 442
Other provisions	295 183	277 834
	303 540	280 195

The composition of the caption of "Other provisions" of the consolidated balance sheets at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	2018
Fund Royal Decree – Law12/1995	182 610	175 583
Provision for Special Loan Liquidity Line (Note 10.2.2)	92 477	90 752
Fund for amounts recovered from BBVA	218	284
Fund Prestige Facility	8 934	9 031
Fund to compensate AIE shareholdings results (Note 10.3)	9 515	890
Other funds	1 429	1 294
	295 183	277 834

Fund Royal Decree Law 12/1995

Royal Decree- Law 12/1995 (28 December), published in the Official State Gazette (BOE) on 30 December 1995 and taking effect on January 1, 1996, it is stipulated that Instituto Oficial de Crédito would create, by charging the resources obtained from the State Loan referred to by Section 4.1 of the Council of Ministers Resolution (11 December 1987), a Fund totalling a maximum of 150,253 thousands of Euros (Note 19.2) to provide provisions and charge the amounts relating to doubtful and default loans that could arise in the future from the activities listed in Note 1, in accordance with the regulations in force for credit institutions. Additional Provision 4 of Law 66/1997 (30 December) on Tax, Administrative and Social Order Measures stipulated that notwithstanding the application of these regulations, the Council of Ministers or the CDGAE could authorize ICO to charge the Special provision Fund established under RDL 12/1995 for any defaults arising during the course of its business, provided that they did not receive any specific coverage in the General State Budgets. This Fund was created in 1996 under the heading "Other Provisions".

Those loans or transactions that, in view of the relevant terms and conditions, require the application of this Fund are provided for by charge to the same. The Institute's profit and loss account is therefore not affected.

Since they are already provided for through this Fund, the loans covered by the same are not therefore included in the calculation of the general and specific bad debt provision.

The Fund is credited, in addition to the initial allocation, with future allocations that the Instituto Oficial de Crédito makes out of profits obtained and any made or authorized by the State when assuming or offsetting losses, or through any other appropriate system. Similarly, the Fund is credited with the amounts of an recoveries obtained from loans for which provisions have been recorded or any that have been declared to be in default and charged against the fund, that in 2019 and 2018 amounted to 4,388 thousand Euros and 3,084 thousand Euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2019 and 2018, amounted to (377) thousand Euros and (468) thousand Euros, respectively.

In accordance with the provisions of Law 12/1996 (30 December) on the General State Budget, in 1997 an additional 150,253 thousand Euros was allocated to this Fund by charging the Ordinary State Loan.

In 2004 another allocation totalling 249,500 thousand Euros was charged against the State Loan granted to ICO in accordance with the Council of Ministers Resolution dated at July 30, 2004.

This fund's variations in 2019 and 2018 included on caption of "Other provisions" of the balance sheet at December 31, 2019 and 2018 are the following:

	Thousands of Euros
Balance at 1 January 2018	177 926
Capitalization of interests	(468)
Contributions by the State	-
Application ICO results 2017	-
Loan recoveries (principal and interests)	3 084
Applications	(4 959)
Balance at 31 December 2018	175 583
Capitalization of interests	(377)
Contributions by the State	-
Application ICO results 2018	3 136
Loan recoveries (principal and interests)	4 388
Applications	(120)
Balance at 31 December 2019	182 610

In 2019, an extraordinary contribution to the Fund has been registered, for an amount of 3,136 thousand Euros, as part of ICO's net profits from 2018.

Fund for amounts recovered from BBVA

An additional provision Eleven of Law 24/2001 (27 December) on Tax, Administrative and Social Order Measures, was applied by the Institute, the Group's Parent entity, in 2001 and 2002, with regards to the heading "Funds for amounts recovered from BBVA", to allocate part of its equity to cancel an amount owed to the Institute by the State as a result of certain loans and guarantees granted by the former Official Credit Institutions and secured by the State.

Nonetheless, the management of the transactions affected by the cancellation process has meant that ICO continues receiving collections pertaining to these loans, which, following the prudence accounting principle, are not generally registered as income in the profit and loss account. For those accounted as income, in 2019, there is a provision by 218 thousand Euros (284 thousand Euros at December 31, 2018).

Prestige Line Fund

The Prestige Line Fund has its origins in the ROL 7/2002, 22 November, which authorizes to charge on the Fund Special Provision 12/1995 ROL, the default amounts from loans Prestige line, with credit to this fund specific provision.

Fund to offset results AIE shareholding results

Heading Fund to offset AIE shareholdings includes the provision in order to adjust its profit to the transactions performance conducted through the Economic Interest Groupings (Note 10.3). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of 8,626 thousand Euros and 7,848 thousand Euros, respectively in the years 2019 and 2018 (Note 23).

The following chart shows variations of the caption of Provisions in 2019 and 2018:

	Thousands of Euros				
	Provision for taxes	**Fund for pensions and similar obligations**	**Provisions for risks and contingent commitments**	**Other provisions**	**Total**
Balances at 1 January 2018	-	423	1 197	303 045	304 665
Allocations (1)	-	496		1 263	1 759
Recoveries	-	-	(104)	-	(104)
Application of funds	-	-		(17 248)	(17 248)
First application Circular 4/2017	-	-	349	-	349
Transfers and other variations (2)	-	-	-	(9 226)	(9 226)
Exchange profit/(loss)	-	-	-	-	-
Balances at 31 December 2018	-	919	1 442	277 834	280 195
Allocations (1)	-	-	6 963	281	7 244
Recoveries	-	(340)	(623)	(377)	(1 340)
Application of funds	-	-	-	(87)	(87)
Transfers and other variations (2)	-	-	-	17 532	17 532
Exchange profit/(loss)	-	-	(4)	-	(4)
Balances at 31 December 2019	-	579	7 778	295 183	303 540

(1) Recoveries charged to profit and loss account in the 2019, include the amount of 377 thousand Euros, related to credits made to the Special Provision Fund (Royal Decree Law 12/1995 Fund) for the capitalization of interest accrued in relation to the fund's own remuneration (charge of 468 thousand Euros in 2018).Allocations include a provision for the Institute's liquidity lines with ICO risk (see Note 10.2.2.) amounting to 148 thousand Euros (allocation of 1,412 thousand Euros in 2018).

(2) Transfers and other movements at December 31, 2019 mainly include recoveries of amounts from ICO risk mediation lines (Note 10.2.2) for an amount of 1,577 thousand Euros, for credits to the provision Fund RDL 12/95 for contributions and recoveries (Note 19), for an amount of 7,425 thousand Euros, and for the provision to Fund of compensation of results from investments in AIE (Note 23), for an amount of 8,625 thousand Euros.

At December 31, 2018, for the recovery with charge to income tax expense of the Fund of compensation of results from investments in AIE (7,848 thousand Euros, Note 23) and recovery of the fund of contingencies, charged to reserves, for 10,000 thousand Euros (Note 20).

20. EQUITY

The reconciliation of the opening and closing carrying value in 2019 and 2018 of the heading "Equity" in the consolidated balance sheets is the following:

	Thousands of Euros				
	Share Capital	**Restatement reserves**	**Other reserves**	**Profit/(loss)**	**Total**
Balance at 1 January 2018	4 313 067	23 591	996 115	103 100	5 435 873
Distribution of results	-	-	41 946	(103 100)	(61 154)
Other variations of reserves	-	-	(105 118)		(105 118)
Profit/(loss) for the period	-	-		75 671	75 671
Other variations	677	-	(2 003)		(1 326)
Balance at 31 December 2018	4 313 744	23 591	930 940	75 671	5 343 946
Distribution of results			28 608	(75 671)	(47 063)
Other variations of reserves		(2 733)	(9 743)		(12 476)
Profit/(loss) for the period				109 378	109 378
Other variations	289				289
Balance at 31 December 2019	4 314 033	20 858	949 805	109 378	5 394 074

The caption of "other variations of reserves" includes, at December 31, 2019, an amount of 3,136 thousand Euros, as part of the 2018 profit distribution, for contribution to the Fund RDL 12/95 (Note 19). It also includes an amount of (14,789), for results from the liquidation of a financial asset (equity instrument) (Note 9).

The caption of "other variations" mainly includes the annual contribution to equity, by virtue of Law 24/2001, of 27 December, for an amount of 289 thousand Euros in 2019 (677 thousand Euros in 2018). According to the Additional Eleventh Provision of such Law, amounts recovered after the cancellation of debts contracted by the State with ICO, as a consequence of certain credits and sureties granted by former Official Credit Entities and by the Institute will become part of the Institute's equity.

20.1 Reserves of fully or proportionally consolidated entities

The detail per consolidated companies of balances of the equity caption "Equity – Reserves – Accumulated reserves" of the consolidated balances sheets at December 31, 2019 and 2018, in the portion of such balance originated from the consolidation process and excluding revaluation reserves, detailed per fully or proportionally consolidated companies on the consolidated financial statements, is the following:

	Thousands of Euros	
	2019	**2018**
AXIS Participaciones Empresariales, S.A.	9 103	8 236
Instituto de Crédito Oficial	922 440	908 349

	931 543	916 585

20.2 Reserves of entities valued through the equity method

The detail per consolidated companies of balances of the equity caption “Equity – Reserves – Reserves of entities valued through the equity method” of the consolidated balance sheets at December 31, 2019 and 2018, in the portion of such balance revealed as part of the consolidation process, detailed per company valued through the equity method in the consolidated financial statements, is the following:

	Thousands of Euros	
	2019	2018
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	18 208	16 641
CERSA, Compañía Española de Reafianzamiento, S.A.	54	(2 311)
Other entities	-	25
	18 262	14 355

21. OTHER ACCUMULATED COMPREHENSIVE INCOME (valuation adjustments)

The balance of this caption detailed by gross and net amount of the tax effect is the following:

	Thousands of Euros					
	2019			2018		
	Gross	Tax effect (Note 15)	Net	Gross	Tax effect (Note 15)	Net
Financial assets at fair value through other comprehensive income (Note 9)	56 704	(17 011)	39 693	23 219	(6 966)	16 253
Cash flows hedging of assets and liabilities	(85 980)	25 794	(60 186)	(104 907)	31 472	(73 435)
TOTAL	(29 276)	8 783	(20 493)	(81 688)	24 506	(57 182)

The balance of this heading relates to the account “Available-for-sale financial assets” and “Valuation for cash flow hedge derivatives” in the accompanying consolidated balance sheets. The first account records the net amount of changes in the fair value of the assets classified as available for sale that, in accordance with Note 2.2.4, must be included as part of the Group’s equity. The second account records the net amount of changes in the fair value of the cash flow hedge instruments.

	Thousands of Euros	
	2019	2018
Opening balance	(57 182)	(130 880)
Change in fair value of financial assets at fair value through other comprehensive	23 440	16 177

income (Note 9)		
Reclassification to financial assets at fair value through profit or loss	-	3 594
Cash flow hedges	13 249	53 927
Closing balance	(20 493)	(57 182)

22. GRANTED GUARANTEES AND CONTINGENT COMMITMENTS

These headings in the balance sheets record the amounts that the Group must pay on behalf of third parties in the event that the obligated parties do not do so, in response to commitments acquired during the normal course of its business (guarantees granted) and amounts available to third parties (contingent commitments).

The detail of this caption at December 31, 2019 and 2018 is the following:

	Thousands of Euros	
	2019	2018
Granted guarantees		
Financial guarantees	449 279	475 124
	449 279	475 124
Granted contingent commitments		
Available by third parties:		
Credit institutions	269 436	513
Public Administrations sector	2 038 054	2 000 198
Other resident sectors	348 401	349 694
Non-resident sector	222 881	268 656
Other contingent commitments	101 081	89 502
Subscribed values pending disbursement:	552 000	504 000
	3 531 853	3 212 563
	3 981 132	3 687 687

Income obtained from guarantee instruments (guarantees and other sureties) are recorded under the heading “Commissions received” in the consolidated profit and loss account and are calculated by applying the rate established in the relevant contract to the nominal amount of the guarantee.

23. TAX POSITION

The consolidated balance sheet at December 31, 2019 and 2018 includes, within the caption “Tax liabilities”, the liability corresponding to applicable taxes.

The Institute, Group’s parent company, was exempt from corporate income tax in the years

1993 through 1996, in accordance with Royal Decree Law 3/1993, of 26 February, on urgent budgetary, tax, financial and employment measures. In accordance with the provisions of Transitional Provision Thirteen of Law 43/1995 (27 December) on corporate income tax, the Institute was exempted from this tax in 1997 and 1998 and became liable to general corporate income tax as from 1999.

The reconciliation of the accounting Institute's profit, as the Group's parent company, for 2019 and 2018 with the corporate income tax basis is as follows:

	Thousands of Euros	
	2019	2018
Accounting profit before income tax	149 253	112 907
Permanent differences		
Foreign taxes paid	704	478
Accounting income / expenses not attributable	3 233	5 102
Tax losses carried forward attributable from investees	(37 109)	41 259
Deductible expenses corresponding to previous years	-	-
	116 081	159 746
Temporary differences:		
Due to impairment losses and provision non-deductible	37 598	28 237
Due to the reversal of temporary differences arising in other years	(35 116)	(71 964)
	2 482	(43 727)
Compensation previous years' tax assessment basis	-	(16 691)
Tax assessment basis	118 563	99 328
Gross tax payable (30%)	35 569	29 798
Deductions and allowances	(577)	(379)
Withholdings and interim payments	(43 502)	(32 156)
Tax payable (Note 16)	(8 510)	(2 737)
Corporate income tax expense	34 248	47 545
Adjustments CIT expense for allocation investees' bases (Note 19)	8 626	(7 848)
Other adjustments	(562)	-
Corporate income tax expense in the year	42 312	39 697

During the year, tax losses carried forward allocated of Economic Interest Groupings in which ICO has a differing proportional interest in capital are included: 37,109 thousand Euros at December 2019 (allocation of tax gains by 41,259 thousand Euros at December 2018). Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

There are no tax losses carried forward to be offset at 2019 closing.

No tax incentive deductions were applied in the year 2019 nor in 2018. There is an international double tax deduction (taxes borne) amounting to 577 thousand Euros and 379 thousand Euros, respectively. There are not international double taxation deductions at end 2019.

There are no changes in the methods used to depreciate/amortize fixed assets owing to exceptional causes.

Taxes and other tax obligations applicable to the Institute are open to inspection by the tax authorities during last four years.

Due to the possible interpretations of tax legislation that may be afforded to some transactions, basically related to new subject ability to corporate income tax following the full exemption from the same, there could be certain contingent tax liabilities. However, in the opinion of the Institute's tax managers, the possibility of these liabilities crystallizing is remote and in any event, the tax debt that may derive from them would not significantly affect the accompanying annual accounts.

24. INTERESTS AND SIMILAR INCOME

The detail of interests and similar income of 2019 and 2018, based on their origin, is the following:

	Thousands of Euros	
	2019	**2018**
Financial assets at fair value through other comprehensive income	6 579	8 189
Financial assets at amortized cost	329 924	373 639
Derivatives, hedge accounting	(9 470)	(11 634)
Other assets	22	820
Interests and similar income from liabilities	20 047	25 920
	347 102	396 934

25. INTERESTS AND SIMILAR CHARGES

The detail of this caption of the profit and loss account during 2019 and 2018 is the following:

	Thousands of Euros	
	2019	**2018**
Financial liabilities at amortized cost	670 126	798 172
Derivatives, hedge accounting	(302 175)	(323 553)
Other liabilities	-	-
Interests and similar charges from assets	7 207	18 833

	375 158	493 452

26. INCOME FROM DIVIDENDS

The totality of yields obtained for this concept corresponds to the portfolio of variable income, without any amount in 2019 (no amount in 2018).

27. PROFIT/(LOSS) FROM ENTITIES VALUED THROUGH THE EQUITY METHOD

The totality of results from entities valued through the equity method, included on this caption of the consolidated profit and loss account, amounts in 2019 and 2018 to profits by 2,266 thousand Euros and profits by 1,915 thousand Euros, respectively. Annex I includes the detail of shareholdings, as well as their most relevant data at December 31, 2019 and 2018.

28. FEE AND COMMISSION INCOME AND EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

	Thousands of Euros	
	2019	**2018**
Commissions received		
Contingent risks	2 015	1 599
Availability commissions	962	2 608
Other commissions	52 530	53 116
	55 507	57 323
Commissions paid		
Signature risk	(700)	(678)
Other commissions	(6 903)	(8 168)
	(7 603)	(8 846)
Net Commissions for the year	47 904	48 477

The heading “Other commissions” of commissions income, at December 31, 2019, includes 25,000 thousand Euros related to commissions for the management of FFPP and FLA (25,000 thousand Euros at December 31, 2018) (Note 16).

29. PROFIT OR LOSS ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

The detail of this caption of the consolidated profit and loss account, based on the origin of its items is the following:

	Thousands of Euros	
	2019	2018
Financial assets at fair value through other comprehensive income (Note 9)	-	1 695
Financial assets at amortized cost, loans and receivables (Note 10.3)	-	-
Financial assets at amortized cost, debt securities (Note 10.1)	10 365	
Financial liabilities at amortized cost (Note 18.3)	-	(941)
	10 365	754

In 2019, the Group sold financial assets at amortized cost (Public Debt), as established on its Business Model (and with limits therein set), in order to achieve more balance in the structure of maturities and renewals of interest rates in the entity's Euro balance. The nominal amount disposed of was of 368 million Euros, generating results by 10,365 thousand Euros.

30. PROFIT OR LOSS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

The detail of this caption of the consolidated profit and loss account, based on the origin of its items is the following:

	Thousands of Euros	
	2019	2018
Trading derivatives (Note 7)	591	1 023
	591	1 023

Following the entry into force of IFRS 13 (January 1, 2013), the Group did not incorporate the corresponding adjustment for counterparty and equity credit risk (CVA-DVA) for the valuation of the derivative instruments. The adjustment made under this heading (including this caption) at December 31, 2019 amounts to profits by 4,030 thousand Euros (loss of 195 thousand Euros at December 31, 2018).

31. PROFIT OR LOSS FOR FINANCIAL ASSETS AND LIABILITIES OBLIGATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

The detail of this caption of the profit and loss account is the following:

	Thousands of Euros	
	2019	2018
Equity instruments at fair value through profit or loss (Note 8)	1 984	710
	1 984	710

32. PROFIT OR LOSS RESULTING FROM HEDGE ACCOUNTING, NET

The detail of this caption of the profit and loss account is the following:

	Thousands of Euros	
	2019	2018
Hedging derivatives (Note 11)	56 472	56 104
	56 472	56 104

This caption includes results from the variation of fair value both of hedging elements and of hedged elements.

33. OTHER OPERATING INCOME. OTHER OPERATING EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

	Thousands of Euros	
OTHER OPERATING INCOME	2019	2018
Income from exploitation of estates	750	910
Other concepts (*)	1 281	230
	2 031	1 140

(*) It mainly includes expenses recovered from returns of supplies and advances performed for the management of assets by BBVA

	Thousands of Euros	
OTHER OPERATING EXPENSES	2019	2018
Other concepts	(211)	(3)
	(211)	(3)

34. PERSONNEL COSTS

The composition of this caption of the consolidated profit and loss account of 2019 and 2018 is the following:

	Thousands of Euros	
	2019	2018
Wages and salaries	16 208	15 911
Employee benefits expense	3 746	3 657
Other expenses	1 592	1 472
	21 546	21 040

The number of the Group's employees at December 31, 2019 and 2018, distributed per professional categories and gender, has been the following:

	Payroll's distribution			
	Male		Female	
	2019	2018	2019	2018
Management	15	11	14	4
Managers and technicians	113	108	140	144
Administrative staff	8	8	48	52
	136	127	202	200

The average number of the Group's employees in 2019 and 2018, distributed per professional categories and gender, has been the following:

	Payroll's average distribution			
	Male		Female	
	2019	2018	2019	2018
Management	15	11	14	4
Managers and technicians	105	109	137	148
Administrative staff	8	8	49	52
	128	128	200	204

NOTE: Since the signing of the Fifth Collective Agreement (published in the Official Gazette on October 24, 2008), general service staff is included under the heading of administrative professionals.

The average number of the Group's employees, in 2019, with disability above 33% has been of 3 persons (as in 2018).

Remunerations and other benefits for the General Board

In 2019 and 2018 the Institute, as the Group's parent company, recorded in the consolidated profit and loss account 137 thousand Euros and 92 thousand Euros (on the section of "Other administration expenses"), respectively, in respect of remuneration accrued by the members of the General Board in respect of wages, allowances and other remunerations. These were paid to the Treasury, according to the applicable regulation law, in the case of General Board members considered as Senior Positions in the Civil Service.

Remunerations perceived by the General Director/s of the Institute, as the Group's parent company, and by other persons who exercise similar functions during 2019 and 2018 are the following:

Year 2019:

	Salaries and wages Thousands of Euros		Other	
No. persons	Fixed	Variable	Remunerations Thousands of Euros	Total Thousands of Euros
5	583	65	2	650

Year 2018:

	Salaries and wages Thousands of Euros		Other	
No. persons	Fixed	Variable	Remunerations Thousands of Euros	Total Thousands of Euros
5	550	76	2	628

At December 31, 2019 and 2018 there were no loans granted to the executive members of the Institute's General Board. At December 31, 2019 loans granted under internal regulations on loans to staff, had an outstanding amount of 14,574 thousand Euros and the average interest rate was 2.51% (15,023 thousand Euros at December 31, 2018, with an average interest rate of 2.51%).

In addition, at such date, no pension or life insurance obligations had been acquired with regards to current or former members of the General Board.

35. OTHER ADMINISTRATION EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

	Thousands of Euros	
	2019	2018
Buildings, installations and materials	946	794
Computers	3 485	3 450
Communications	2 157	2 020
Advertising and publicity	1 344	1 113
Rates and taxes	1 604	1 320
Other general administration expenses	7 830	9 375
	17 366	18 072

Audit expenses

The annual accounts audit has been made by the General Intervention of the State Administration (IGAE for its initials in Spanish). Consequently, there are no remunerations to auditors for this concept, as they are assumed by the General Intervention (Ministry of Treasury and Public Administrations).

The amount invoiced by Mazars Auditores S.L.P. for the audit of CERSA, Group's associate, of 2019 and 2018, which is attributable to the Group's consolidation (that is to say, fees accrued for the Group's shareholding percentage in CERSA) is of 5 thousand Euros in each year.

The amount invoiced by companies under the trademark of Mazars (who audit the annual accounts of ICO and Group's consolidation, by virtue of a contract formalized with the IGAE to deliver a collaboration service in the performance of the audit of the annual accounts of 2019), for which non-audit services have been delivered during 2019, has been of 15 thousand Euros, tax included.

The amount invoiced by companies under the trademark of Mazars (who audit the annual accounts of ICO and Group's consolidation, by virtue of a contract formalized with the IGAE to deliver a collaboration service in the performance of the audit of the annual accounts of 2018), for the delivery of non-audit services during 2019 has been of 39.5 thousand Euros, including taxes (15 thousand Euros in 2018).

36. FAIR VALUE

As mentioned above, financial assets are recorded on the consolidated balance sheet at fair value, except for loans and receivables and equity instruments whose market value cannot be estimated reliably.

In the same way, financial liabilities are recorded on the consolidated balance sheet at amortized cost, except those included in the trading portfolio.

Part of the assets registered under "loans and receivables" and liabilities registered under the heading "Financial Liabilities at amortized cost", from the consolidated balance at December 31, 2019 and 2018, are accounted at variable rate, with an annual revision of that rate, so their fair value coming from movements of interest rates, it is not significantly different from the one registered in the consolidated balance. The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate the fair value using discount flows. The value calculated for these operations at December 31, 2019 and 2018 is as follows:

	Thousands of Euros			
	Carrying value		Fair value	
ASSETS	**2019**	**2018**	**2019**	**2018**
Financial assets at amortized cost	28 469 446	32 001 853	28 697 087	32 001 852
LIABILITIES				
Financial liabilities at amortized cost	25 813 190	30 295 171	26 077 492	30 317 147

Fair value has been calculated, in all cases, both in 2019 and in 2018, taking as reference implicit curves in monetary and Public Debt markets.

37. OPERATIONS WITH SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Balances at December 2019 and 2018 of the Company related to Joint Ventures and Associates are as follows:

CERSA

- Deposits to customers (financial liabilities at amortized cost): 13,995 thousand Euros at December 31, 2019 (4,198 thousand Euros at December 31, 2018).

38. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1.2). Certain accounting practices applied by the Group that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules. In the event of a discrepancy, the Spanish-language version prevails

INSTITUTO DE CRÉDITO OFICIAL

MANAGEMENT REPORT

Financial environment and frame of action

The economic growth remained strong in 2019, outstripping the Eurozone average, although it extended its slowdown trend in an increasingly uncertain international context, characterized by the slowdown of the economic activity and persistence of commercial and geopolitical tensions. In particular, GDP expanded by 2%, implying a slowdown of 0.4 percentage points (pp) with regards to 2018. This lower growth was explained by the lower contribution of national demand, from 2.6 pp in 2018 to 1.5 pp in 2019, in contraposition with the external demand, which contributed to the growth in 0.4 pp (vs. -0.3 pp in 2018).

Therefore, the growth of the Spanish economy in 2019 relied upon both the domestic demand and the external sector, despite the fact that the domestic demand moderated its growth, due to the slowdown of the expense in consumption and in the gross capital formation; however, the expense in final consumption of the Public Administrations slightly increased in the set of 2019. In turn, the external environment of prolongated uncertainty, present throughout the year, has largely influenced the lower dynamism of the investment in fixed capital during 2019 (the annual growth decreased to more than half), despite the fact that the companies have counted with favourable financial conditions. This moderation of the growth of investment has affected its two components, capital goods and construction.

With regards to the external sector, the growth of exportations of goods and services has been similar to 2018 (slowdown of one tenth), but importations have grown to a lesser extent, in line with the lower dynamism of domestic demand, translated in a net positive external demand. Also, in 2019, Spain continued receiving a high number of international tourists (83.7 million), 1.1% more than in the previous year. Despite the slowdown of the activity of our main trading partners, the Spanish economy has maintained in 2019 a high financing capacity with regards to abroad, and surplus for current account which has also been compatible with a robust growth of the real GDP. The accumulation of positive external balances in the last years is allowing an improvement of the Net International Investment Position and reveals the structural change undergone by the Spanish economy, juggling sustained growth rates with surpluses for current account.

In relation to employment, in 2019, there was a notable employment creation, although more moderated, in line with the less expansive evolution of the activity. the unemployment rate continued decreasing. According to the Active Population Survey (EPA), 402,300 new employments were created in 2019, allowing the unemployment rate to close the year at 13.78%, that is to say, 0.67 pp less than in the previous year.

The average annual inflation rate was of 0.7% in 2019, one point less than in the previous year. Such decrease mainly derives from the moderation in the growth of food prices and the fall of prices of energy products with regards to the previous year. The underlying inflation was the same as in 2018, with an annual average of 0.9%.

The public deficit in 2018 was below 3% of the limit established in the Stability and Growth Pact, thus allowing the Spanish economy to departure from the Excessive Deficit Procedure. In particular, the deficit amounted to 2.5% of the GDP and estimates point toward a deficit at 2019 closing similar or somehow lower than in the previous year. This would have allowed continuing the progressive reduction of the public debt.

In turn, in the Euro area, the activity continued slowing down in 2019, registering an annual growth of 1.2% (1.9% in 2018). Due to the high degree of openness to the outside, this region has been particularly affected in the last year by the weakening of commercial exchanges. The loss of thrust in the activity has been more acute in the manufacturing lines, more dependent from commercial exchanges than the service sector. The service line is more bound to the domestic demand, which has continued being favoured by favourable financial conditions and, in the case of private consumption, by increases of real salaries and the strengthening of employment.

Inflation in the Euro area, as in Spain, increased to a lesser extent in 2019 (annual average of 1.2%) with regards to 1.8% in 2018, whereas underlying inflation continued being contained, although it increased in one tenth in the average of 2019, to 1.1%.

As a consequence of the above, the European Central Bank changed, during 2019, its roadmap and underpinned again the expansive tone of its monetary policy during the year, with new measures to preserve the monetary stimulus. At the beginning of 2019, a new round of long-term refinancing operations (TLTRO-III) was announced, in order to maintain favourable conditions for the access to credit. However, the largest package of measures was announced on the September meeting, due to the prolongated slowdown of the European economy. The package of adopted measures included a decrease of 10 pb in the interest rate of the deposit facility, to -0.50%, the resumption of net purchases of assets, which will extend to a moment close to the first increase of interest rates of reference, as well as the reinvestment of the portfolio assets that mature for a long period of time, after the first increase of official rates. Also, some parameters of TLTRO-III operations were recalibrated, and a reserve remuneration mechanism (two tier system) was introduced, exempting a portion of the liquidity surplus of entities, being remunerated at the negative rate of the deposit facility. Lastly, the Governing Council modified its guidelines regarding the period during which interest rates are expected to remain at the current levels —or below— and substituted the previous temporary reference by a formulation in which the path of rates is conditioned to the convergence of the inflation in the period of projection towards levels below 2%, but sufficiently close to such benchmark, and for such convergence to be reflected in the underlying inflation path.

Low interest rates and the expectation of their maintenance continued pushing downwards debt profitabilities. The Spanish bond of reference to 10 years started the year around 1.40% and decreased during the following months, pushed by doubts on the European and worldwide recovery, and the change in the monetary policy, amounting approximately to 0.15% on October. In the last months of the year, it increased slightly, closing 2019 at 0.47%. The differential between the debt in our country and the German benchmark was reduced, in parallel with the reduction of profitabilities, closing the year in 65 basic points, after beginning at 117.

This environment of low interest rates in the financial markets continued being conveyed to familied and companies through reduced interest rates in banking loans. In this sense, interest rates applied to smaller operations in Spain (less than one million Euros, using as approximation loans to SMEs) remained at very reduced levels throughout 2019; the year closed being marked by a new all-time low in 1.76% on December (1.92% at December 2018). The differential with this same rate of loans in Germany was favourable throughout the year, reaching the highest difference of 30 basic points on December. In even smaller loans, of up to 250,000 Euros, rates also remained very low, closing the year at 1.87%, also all-time low.

With regards to amounts, there was a slight set-back in the volume of new operations: those below one million (-0.8% with regards to 2018) and those below one fourth of a million (-1.8% with regards to the previous year), although the rhythm of the set-back gradually decreased throughout the year. With this behaviour of new loans, outstanding balances of banking credits to companies continued the downward trend (-0.6% on December).

With regards to the quality of banking assets, the doubtful ratio continued decreasing throughout the year, amounting to 4.8% in December, with regards to 5.8% in the previous year. This trend is explained by the fall of the credit qualified as doubtful, which was much more intense than the aggregated fall of total credit to families and companies.

In turn, the results from the Bank Loans Survey published by the ECB in collaboration with national central banks revealed that the demand for new credit by Spanish SMEs had decreased throughout 2019 and, according to this survey, the trend is expected to continue in coming quarters. The lower financing needs and the use of other financing sources (internal financing, loans from other entities, loans from non-banking institutions, issuances, shares, etc.) would have exercised a negative influence on the banking credit demand, causing a decrease of loans' requests.

At European institutional level, the main event in 2019 was the negotiations on the exit of the United Kingdom from the UE. Such exit took place on January 31, 2020 and, after such date, the so-called transitory period began. This time period was agreed as part of the Exit Agreement and, currently, it is expected to last until December 31, 2020. Until then, the situation will continue without changes for the citizens, consumers, companies, investors, students and researchers, both in the EU and in the UK. The EU and the UK will use these months to negotiate a new loyal association for the future, based on the Political Statement agreed by the parties on October 2019.

In turn, after the European elections of May 2019, on July 16, 2019, the European Parliament chose Ursula von der Leyen as chairwoman of the European Commission. She is the first woman in this position. Ursula von der Leyen announced that she will focus on an ambitious climate agenda to turn Europe into the first climate-neutral continent by 2050. She also committed to work closely with the European Parliament to reinforce the democracy and strengthen a fair social market economy in Europe. Among the new Commission's priorities is the European Green Deal, an ambitious package of measures to allow European companies and citizens to benefit from a sustainable ecological transition. Measures, accompanied by an initial roadmap for the main policies, will range from an ambitious reduction of emissions to the investment in cutting-edge research and innovation measures, in order to preserve the natural environment of Europe. The Green Deal could be a new strategy of growth in the EU.

In the context of the new Multi-Annual Financial Framework (2021-2027), still under negotiation, we note the initiative of the InvestEU Programme which will cover in one structure the range of currently available financial instruments in the UE, and will extend the fruitful model of the Investment Plan for Europe, the «Juncker Plan». The InvestEU Programme will allow the Commission to stimulate investment further, as well as innovation and employment creation, generating additional investments, and giving a new boost to SMEs' competitiveness, innovation and employment creation in Europe.

Its predecessor, the European Investment Plan, continued functioning throughout 2019. In Spain, total financing charged to the European Fund for Strategic Investments (EFSI) amounted to 10.4 thousand million Euros and is expected to generate additional investments by 51.1 thousand million Euros.

In turn, the European Banking Authority published its annual report on the European banking sector's risks and vulnerabilities on November 2019, together with the exercise of transparency 2019, which provides detailed information for 131 banks in the EU. As a whole, entities' solvency ratios remained stable, whereas the ratio of doubtful assets continued its contraction. Additionally, in a context of low profitability, the proactive management of operating expenses is essential. For 2020, stress tests are expected to be performed, as periodically are performed, in order to ensure that entities are prepared to face adverse scenarios.

In summary, the Spanish economy continued experiencing, in 2019, a smooth slowdown in the expansion rhythm, although it remains above the average of the Euro area. In a context of favourable financial conditions, the economic growth was underpinned both in domestic demand and in the external sector, which increased its contribution to growth. This smooth slowdown is expected to continue during 2020, always maintaining the favourable differential with regards to the Euro area.

Activity

Instituto de Crédito Oficial continues providing added value in financing to companies, SMEs and freelancers through its function of Public Promotion Bank, which task is developed through the fund distribution mechanism in collaboration with mediator credit entities which operate in Spain (ICO Lines) as well as through financing programmes and guarantees where ICO acts directly with clients.

In 2019, financing operations or guarantees have been withdrawn with companies and territorial administrations for a total amount of 6,462,857 thousand Euros, which globally implies that withdrawals have increased by 92% with regards to the previous year.

In particular, 74.1% of this amount (4,787,884 thousand Euros) corresponds to withdrawals made through the different mediation lines traded by ICO in 2019, accumulating a total of 63,524 operations, out of which 8 are from the line of International Channel, and out of the remaining 63,516 operations, 64.6% have been aimed to micro-SMEs (companies of up to nine workers) and 47.9% correspond to loans of an amount equal or below 25,000 Euros.

In the mediation activity, there are two different areas of action:

- **Companies and Entrepreneurs:** lines aimed to finance investment projects and liquidity needs of employers and companies, implying 81.6% of the total operations of mediation lines.

    - Charged to the line ICO Companies and Emprendedores, 50,133operations have been granted for an amount of 3,192,222 thousand Euros, 66.7% of the entire mediation activity.
    - Availabilities of the line ICO Credit Comercial, mainly aimed to provide liquidity to employers and companies by advancing invoices originated from the commercial activity within the national territory, have reached a volume of 63,968 thousand Euros in 1,663 operations.
    - Under the line ICO Guarantee SGR/SAECA, 67 operations have been formalized, for a total amount disposed of by 5,637 thousand Euros.

- **International:** these lines are aimed to finance the internationalization and exporting activity of Spanish companies.

    - Through the line ICO Exportadores, 1,062,516 thousand Euros have been formalized in loans to 11,195 employers and SMEs, to promote the Spanish companies' exporting activity.
    - In 2019, 373,451 thousand Euros have been disposed of in 8 operations of the line ICO Canal Internacional.
    - In order to promote external expansion projects, 90,090 thousand Euros have been

disposed of, distributed in 458 operations through the line ICO International.

In turn, through the direct financing modality, during 2019, ICO has made available 1,674,972 thousand Euros in direct credit operations and guarantees. In these operations the Institute participates in the financing, collaborates in the structuring of operations, and assumes the credit risk, respecting the principle of complementarity with the private initiative and promoting the development of large investment projects throughout Spain and abroad.

With regards to the attraction of funds, during 2019, ICO has obtained mid and long-term financing for an amount of 5,886,883 thousand Euros. Out of this amount, 73.7% originates from issues in capital markets and the remaining 26.3% was attracted through loans from multilateral institutions. In 2019, ICO, fully committed with the financing market development and sustainable investment to promote an inclusive economic growth and to advance towards a more sustainable development, has carried out the first issuance of green funds, for an amount of 500 million Euros. Funds are aimed to finance projects to contribute to the protection of the environment and fight against climate change.

In addition to the Institute's credit activity and the concession of sureties, the Institute performs tasks as financial agent of different instruments of the State, aimed to the internationalization of Spanish companies, through the Fund for the Business Internationalization (FIEM) and Reciprocal Interest Adjustment Agreement (CARI); the financial cooperation to development, through the Development Promotion Fund (FONPRODE) and Water Fund (FCAS); and the financing of the State's peripheric administration through Territorial Funds of Autonomous Communities and Local Entities. At the end of 2019, the outstanding balance of the credit portfolio granted with State's funds, administered and managed by ICO, amounted to 194,093 million Euros, entailing an increase of 611 million Euros with regards to existing balances at 2018 closing.

- The Financing Fund of Autonomous Communities, in which ICO acts as financial manager, presents an outstanding balance at 2019 closing of 180,170 million Euros.

- The Financing Fund of Local Entities has closed 2019 with a balance of 6,308 million Euros.

- The State's Funds for internationalization and financial cooperation to development (CARI, FIEM, FONPRODE and FCAS) have a joint balance of 7,615 million Euros at 2019 closing.

Another main lines of strategic action followed by ICO group in this period has been the launch of one new call of the FOND-ICO Global, first Spanish public "Fund of Funds". This capital risk fund managed by Axis, capital risk manager of ICO group, had an initial allocation of 1,200,000 thousand Euros, extended due to its positive evolution, with a current allocation of 2,000,000 thousand Euros. In turn, FOND-ICO Infraestructuras II, newly created fund with an amount of 400,000 thousand Euros, will invest in sustainable infrastructures (transport, social infrastructure and energy and the environment) in Spain and abroad.

Balance sheet

ICO Group occupies a prominent position within the Spanish financial system and has an important role in the Spanish economy, intensifying its contribution in those periods of economic and financial crisis characterized by the scarcity of credit, moments at which ICO has a specially relevant role.

During 2019, according to forecasts, there has been a decrease in the size of the balance sheet of the Institute and subsidiaries, from 36,251,045 thousand Euros at 2018 closing to 31,841,654 thousand Euros in 2019. The outstanding balance of the credit investment has decreased by 11.0%, amounting to 28,469,446 thousand Euros at December 31, 2019:

- Loans to credit institutions amount to 10,215,054 thousand Euros. This caption mainly includes outstanding balances from mediation operations.

- Loans to customers close the year with a balance of 10,410,969 thousand Euros with regards to 10,061,491 thousand Euros in the previous year.

- Debt securities amount to 7,843,423 thousand Euros; 9,503,883 thousand Euros at 2018 closing.

The outstanding balance of the portfolio of debt securities at fair value through other results, aimed to cover possible liquidity needs, amounts to 998,586 thousand Euros at December 31, 2019.

In agreement with the decrease of credit investment, during 2019, there has been a decrease of the balance of financial liabilities at amortized cost, closing the year in 25,813,190 thousand Euros.

Equity of ICO and subsidiaries amounts to 5,373,581 thousand Euros at 2019 closing, 16.9% of the balance sheet. The solvency coefficient of the Institute and subsidiaries at year-end closing amounts to 41.07%, much higher than regulatory minimums.

Risk management policy

The Institute's actions with regards to credit, liquidity, market and operational risk management are described on Notes 5.3 to 5.6.

Results

Despite the decrease of the balance sheet's size, gross margin in 2019 has undergone an increase with regards to 2018 (98,274 and 63,486 thousand Euros, respectively).

Operating expenses (administration and amortizations) of ICO and subsidiaries have amounted to 42,828 thousand Euros, maintaining lower figures than in 2018 (44.225 thousand Euros).

Net allocations to provisions have maintained in 2019 the good behaviour experienced in previous years, with net recoveries.

As a consequence, profit before tax obtained have significantly exceeded expectations, amounting to 154,213 thousand Euros.

Research and development expenses

No research or development activities were carried out in 2019.

Treasury stock

Not applicable to the Institute.

Personnel

In 2019, the Institute’s average headcount stood at 310 employees, compared to 314 in 2018.

Post-balance sheet events

In 2020, ICO will continue its firm support for Spanish enterprises, maintaining its program of lending to self-employed workers and entrepreneurs through the different second-floor facilities, particularly supporting the international expansion of Spanish companies.

ICO will also continue financing projects in Spain and abroad that promote economic growth, particularly in investment, innovation and the international expansion of companies.

Other significant events that occurred after the reporting date are detailed in Note 1.8.

Annex I:

Investments at 31.12.2019 and 31.12.2018 (directly and indirectly held by ICO, as Group's parent company)

The relevant information on shares in associates and subsidiaries at December 31, 2019 and 2018 is the following:

At 31 December 2019:

			Shareholding %			Investment's carrying value			Entity's data		
	Address	**Activity**	**Direct**	**Indirect**	**Total**	**Gross**	**Impairment**	**Net**	**Assets**	**Equity**	**Results**
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Supporting guarantee of guarantee operations granted by the SS.GG.RR.	24. 26%	-	24, 26%	36 461	-	36 461	445 572	307 385	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with Spanish interest performed in developing countries	20.31%	-	20,31%	8 465	-	8 465	146 198	140 582	1 871
						44 926	**-**	**44 926**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investments	100.00%	-	100,00%	1 940	-	1 940	12 169	11 609	7 565
						46 868	-	46 868			

Non-audited economic information, referred to December 31, 2019

Annex I:

Investments at 31.12.2019 and 31.12.2018 (directly and indirectly held by ICO, as Group's parent company)

At 31 December 2018:

			Shareholding %			Investment's carrying value			Entity's data		
	Address	**Activity**	**Direct**	**Indirect**	**Total**	**Gross**	**Impairment**	**Net**	**Assets**	**Equity**	**Results**
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Supporting guarantee of guarantee operations granted by the SS.GG.RR.	24. 26%	-	24,26%	36 461	-	36 461	426 267	280 854	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with Spanish interest performed in developing countries	20.31%	-	20,31%	8 465	-	8 465	136 117	131 469	7 821
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Asset management	50.00%	-	50,00%	2	-	2	36	28	(24)
						44 928	**-**	**44 928**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investments	100.00%	-	100,00%	1 940	-	1 940	12 507	11 061	5 884
						46 868	**-**	**46 868**			

Non-audited economic information, referred to December 31, 2018

Annex II

ANNUAL BANKING REPORT

The present Annual Banking Report has been prepared in compliance with article 87 of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions. According to this article, from January 1, 2016, credit institutions must provide Bank of Spain and annually publish, as a report accompanying the audited financial statements according to the regulation on auditing, per country where they are established, the following consolidated information for each year:

a) Denomination, nature and geographic location of the activity.
b) Turnover.
c) Number of FTE employees.
d) Gross profit/(loss) before tax.
e) Income tax.
f) Public grants or aids received.

The criteria used in the preparation of the annual banking report of 2019 and 2018 are detailed below:

a) Denomination, nature and geographic location of the activity

This information is available on Section 1 of the Group's Notes to the Consolidated Financial Statements. In the case of Instituto de Crédito Oficial, the main activity developed by the Group is the direct and mediation credit activity, developing such activity exclusively under Spanish jurisdiction, not having establishments or subsidiaries outside our borders.

b) Turnover

For the purpose of the present report, turnover is total net operating results, as defined and presented on the consolidated profit and loss account that i part of the Group's consolidated annual accounts.

c) Number of FTE employees

Data on FTE employees have been obtained from the Group's average payroll.

d) Gross profit/(loss) before tax

For the purpose of the present report, gross profit/(loss) before tax is profit/(loss) before tax, as defined and presented on the Group's consolidated profit and loss account.

e) Income tax

The corresponding amount of accrued tax has been included and registered on the caption of income tax of the consolidated profit and loss account.

f) Public grants or aids received

In the context of information requested by the legislation in force, this term has been interpreted as any aid or grant in line with the Guidelines of Estate's Aids of the European Commission and, in such context, the Group companies have not received any public grant or aid in 2019 or 2018.

The detail of the information corresponding to 2019 and 2018 is the following (amounts in thousands of Euros):

At 31 December 2019:

	Thousands of Euros			
JURISDICTION	Turnover	Average no. Employees	Gross profit/(loss) before tax	Income tax
Spain	98 274	338	154 213	44 835

At 31 December 2018:

	Thousands of Euros			
JURISDICTION	Turnover	Average no. Employees	Gross profit/(loss) before tax	Income tax
Spain	63 486	332	117 330	41 659

At December 31, 2019 the Group's return on assets (ROA) (net consolidated profit divided by total average assets) has been estimated at 0.45%.

INSTITUTO DE CRÉDITO OFICIAL

APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2019

In accordance with prevailing legislation, the Chairman hereby approves the Institute's consolidated financial statements and dependent entities referring to year 2019, the consolidated management report relative to the year 2019, consisting of the documents prior to this page and comprising 153 sheets in the original Spanish version.

Madrid, March 30, 2020

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D. José Carlos García de Quevedo Ruiz

Chairman