Caja Laboral Popular Coop. de Crédito and subsidiaries (Consolidated Group)

Audit report,
Consolidated annual accounts at 31 December 2018
and consolidated Directors' Report for 2018

Independent auditor´s report on the consolidated annual accounts

To the members of Caja Laboral Popular Coop. de Crédito:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Caja Laboral Popular Coop. de Crédito (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, and the profit and loss account, statement of recognized income and expenditure, statement of changes in total net assets, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Impairment loss of assets in loan portfolio	
The determination of impairment losses on the loan portfolio is one of the most complex and relevant estimates in the preparation of the attached consolidated financial statements. On 1 January 2018, International Financial Reporting Standard 9 (IFRS 9) came into force, the main amendment of which entails that the impairment calculation models consider the expected loss rather than the loss incurred. The assessment of impairment due to credit risk is based on models with a high level of judgment when calculating the impairment losses, taking into consideration matters such as: • The classification of the different loan portfolios according to their credit risk profile. • The identification and classification of assets which are under special surveillance or impaired. • The use of assumptions with an effect on provisions and estimates of the achievement of a certain level of cash flows by borrowers whose impairment is estimated individually, based on the most recent information available. • The fair value of the collateral associated with the loans granted. In this context, the Group uses models that, based on its experience and the information it has on the banking sector in which it operates as well as forecasts of future conditions, enable it to estimate the collective provisions for credit risk and the provisions for risks estimated on an individual basis. See notes 2, 13.h), 26 and 63 of the Notes to the accompanying consolidated financial statements.	Our work regarding the estimate of loan portfolio impairment focused on the analysis, assessment and verification of the general internal control framework, as well as on the performance of detailed tests regarding provisions estimated both on an aggregate and individual basis. We have performed the following procedures to the internal control system, among other things: • Understanding and reviewing the calculation methods applied. • Verifying the adequacy of the various policies and procedures approved by the Group's governing bodies with respect to applicable regulatory requirements. • Verifying the main matters relating to the security environment for the information systems supporting the calculation of the provisions. • Reviewing the regular risk assessment and monitoring alerts applied by the Group to identify risks that may be considered to be impaired or under special monitoring. • Determining that the regular review of borrower files within the process of monitoring their accounting classification and the recognition of impairment, where applicable, is adequately performed. We have also performed detailed tests consisting of: • The selective verification of the databases used to calculate provisions, comparing the primary determining attributes of the impairment provision against support documentation (purpose of the transaction, classification of the loan, segmentation, default date). • A recalculation of the aggregate provisions for credit risk. • An assessment of the suitability of the discounted cash flow models used in the calculation of provisions based on individual analysis.

Key audit matter	How our audit addressed the key audit matter
	• A review of a sample of files to evaluate their adequate classification and recognition and, if appropriate, the relevant impairment. Any difference obtained as a result of our procedures with respect to management's calculations has been maintained within a reasonable range in relation to the amount included in the attached consolidated financial statements.
Provisions for tax, legal and regulatory litigation The Group is involved in administrative, judicial or any other type of proceedings relating to legal, fiscal and regulatory matters, mainly arising in the normal course of business. Within this context, there are also situations which, although not subject to legal proceedings, require the recording of provisions, in accordance with the evaluation of the Management, such as those relating to the possible impacts of the refund of the amounts received as a result of the application of Royal Decree-Law 1/2017, on consumer protection measures relating to floor clauses and those intended to compensate customers for the marketing of certain products. In general, due to the complexity of these procedures and the long period of time over which they take place, both the determination of the expected outcome of these proceedings and the evaluation of their economic impact are a particularly complex and uncertain matter as to their possible outcome and/or definite amount. Consequently, the estimation of the provisions for litigation is one of the areas that entails a greater component of estimation in terms of its possible impact on the attached consolidated financial statements. The Group records a provision for these items, estimating, therefore, the associated disbursement as probable on the basis of the estimates made, applying calculation procedures consistent with successful experience, legal analysis and the uncertain conditions inherent in the obligations they cover. See note 38 of the report on the attached consolidated financial statements.	We have analysed and documented our understanding of the Group's process for identifying and evaluating litigation and open processes and the Group's process for recording provisions, focusing our procedures on aspects such as: • Understanding the policy for classifying claims and litigation and assigning provisions, where necessary. • Analysing the main types of lawsuits, claims and litigation in progress. • Obtaining confirmation letters from attorneys and advisers that work with the Group in order to compare their assessment of the expected outcome of claims or litigation, verify the completeness of the information, the correct recognition of provisions and identify any potential omissions of liabilities. • Analysing the reasonableness of the estimated expected outcome of the most significant tax proceedings with the support of our internal experts. • Evaluating possible contingencies relating to compliance with tax obligations for all periods open to inspection. • Analysing the recognition, estimation and movements in accounting provisions. Specifically for provisions aimed at compensating clients and covering the outcomes of contingencies related to floor clauses, our procedures focused on: • Understanding the control environment, evaluating and verifying the controls associated with the calculation and reviewing the associated provision.

Key audit matter	How our audit addressed the key audit matter
	• Evaluating the methods and hypotheses used by the Group by verifying that they are consistent with the applicable accounting framework. • Verifying the use of historical data to determine the provisions to be maintained. • Analysing a selection of lawsuits and claims by verifying the correct grouping of cases by type for the calculation of provisions. • Examining a selection of operations with floor clauses by verifying the traceability of the main determining attributes of the provision with the Group's calculations. • Confirmation from internal solicitors regarding the total number of ongoing proceedings. The result of our work shows that the provisions for tax, legal and regulatory litigation included in the attached consolidated financial statements are within an appropriate range, based on the application of reasonable judgements in their evaluation and estimation process, taking into account the particularities of the various claims, litigation and other contingencies identified and communicated by the Group's management and/or legal and tax advisers.
Measurement of insurance contract liabilities The Group engages in the life insurance business and markets term, endowment and unit-linked life insurance products. It also engages in the non-life insurance business, fundamentally consisting of automobile, liability and comprehensive casualty lines of business, primarily homeowners' insurance. The Group recognizes the liabilities associated with those contracts based on applicable regulations which, in some cases, require certain judgments and estimates by Group management to reflect the unearned amounts of premiums issued, the mathematical provision and the provision for benefits.	We have gained an understanding of the process of estimating and recognizing life and non-life insurance contract liabilities, which included an evaluation of the design and effectiveness of the internal control related to this area and controls over the most relevant information systems. Our procedures have focused on matters such as: • Understanding the method for calculating the provisions for life and non-life insurance contracts in accordance with the nature of the products, as well as its consistent application compared with the preceding year. • Verifying the proper accounting recognition of the provisions for life and non-life insurance contracts, as well as any variations during the period.

Key audit matter	How our audit addressed the key audit matter
This included, with respect to risk life insurance contracts, the estimated cost of claims not yet settled, paid or reported at the date of the presentation of these consolidated financial statements. The Group also recognizes a liability for the internal costs that are necessary to settle outstanding claims, as well as a provision for unearned premiums and, in the event of insufficient premiums, a provision for unexpired risks. The Group calculates the mathematical provision for endowment life insurance contracts using complex actuarial techniques based on critical calculation assumptions such as the technical interest rate, cost assumptions or mortality tables, in accordance with applicable legislation. The calculation of the provisions for benefits and, specifically, the provision for claims incurred but not reported, is complex and significantly influenced by the projection methods and assumptions applied by management, such as the impact of the assessment of personal claims in accordance with applicable legislation. See note 37 of the notes to the accompanying consolidated financial statements.	• Reviewing the calculation and the attribution over time of the provision for unearned premiums. • Performing detailed tests regarding the consistency of the information relating to the reserves created at the year-end and the payments made during the year. We have performed additional supplementary procedures specifically on the mathematical provision together with actuarial specialists, as follows: • Review of the integrity and reconciliation of the base data in the technical-actuarial calculations. • Verification of the application of biometric assumptions that are in line with applicable legislation. • Review of the significant assumptions applied by management based on past experience and insurance industry practices. • Recalculation of the mathematical provision for a sample of policies. Our actuarial specialists specifically participated in matters regarding the provision for benefits, such as: • Review of the integrity and reconciliation of the base data in the technical-actuarial calculations. • Review, based on independent statistical projections, for a sample of business lines, placing particular emphasis on those with the highest weight and the provisions involving the highest level of estimation. Any difference obtained as a result of our procedures concerning the calculations made by management remained within a reasonable range compared with the amount of liabilities arising due to insurance contracts included in the accompanying consolidated financial statements.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in the regulations governing the auditing of accounts, which establish two different levels:

a) A specific level that is applicable to the status of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Law 22/2015 on Accounts Auditing, which solely comprises a check that the aforementioned information has been provided in the management report, or if applicable, that the reference corresponding to the separate report on non-financial information has been included in the report in the way provided for in the regulations, and if not, to report on it.

b) A general level applicable to the rest of the information included in the consolidated management report, which comprises the evaluation and report on the concordance of the aforementioned information with the consolidated financial statements, based on the Group's knowledge obtained in performing the audit of the aforementioned accounts and without including information other than that obtained as evidence during the audit, as well as the evaluation and report on whether the content and presentation of this part of the consolidated management report comply with the applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are obliged to report them.

From the work performed, as described above, we have verified that the non-financial information mentioned in section a) above is provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that of the consolidated financial statements for 2018, and its content and presentation are in accordance with the applicable regulations.

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

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated March 8, 2019.

Appointment period

The General Ordinary Members Meeting held on April 21, 2018 appointed us as auditors of the Group for a period of 1 year, as from the year ended December 31, 2017.

Previously, we were appointed by resolution of the General Ordinary Members Meeting for a period of 1 year and we have audited the accounts continuously since the year ended December 31, 2001.

Services provided

Services provided to the Group for services other than the audit of the accounts, are disclosed in note 11 of the notes to the accompanying consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by José Antonio Simón Maestro (15886)

March 8, 2019

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
(Expressed in thousands of euros)

ASSET (*)	Note	2018	2017 (**)
Cash, cash balances at central banks and other on demand deposits (***)	22	**1,573,346**	**1,848,245**
Financial assets held for trading	23	**127,111**	**144,461**
Derivatives		4,342	3,796
Equity instruments		494	541
Debt securities		122,275	140,124
Memorandum-item: Loaned or pledged as security with sale or pledging rights		*13,815*	*68,712*
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	27	**62,136**	
Equity instruments		51,224	
Debt securities		10,912	
Memorandum-item: Loaned or pledged as security with sale or pledging rights		-	
Financial assets designated at fair value through profit or loss	24	**-**	**2,517**
Equity instruments		-	380
Debt securities		-	2,137
Memorandum-item: Loaned or pledged as security with sale or pledging rights		-	-
Financial assets at fair value with changes in other comprehensive income	25	**1,136,015**	
Equity instruments		120,860	
Debt securities		1,015,155	
Memorandum-item: Loaned or pledged as security with sale or pledging rights		*54,456*	
Available-for-sale financial assets	25		**5,081,194**
Equity instruments			223,912
Debt securities			4,857,282
Memorandum-item: Loaned or pledged as security with sale or pledging rights			*612,103*
Financial assets at amortized cost	26	**18,998,859**	
Debt securities		5,542,505	
Loans and advances		13,456,354	
Memorandum-item: Loaned or pledged as security with sale or pledging rights		*807,602*	
Loans and receivables	26		**13,796,818**
Debt securities			50,360
Loans and advances			13,746,458
Memorandum-item: Loaned or pledged as security with sale or pledging rights			-
Investments held to maturity	26		**410,937**
Memorandum-item: Loaned or pledged as security with sale or pledging rights			-
Derivatives - Hedge accounting	28	**148,906**	**143,642**
Investments in joint ventures and associates	29	**2,845**	**3,088**
Associates		2,845	3,088
Assets under insurance or reinsurance contracts	30	**30,395**	**27,239**
Tangible assets	31	**321,755**	**328,955**
Property, plant and equipment		271,364	277,201
For own use		256,433	263,773
Leased out under operating leases		14,931	12,699
Associated with Community Projects		-	729
Investment properties		50,391	51,754
Of which: leased out under operating leases		*38,223*	*39,528*
Memorandum-item: acquired through finance leases		-	-
Intangible assets	32	**33,480**	**33,592**
Goodwill		33,425	33,425
Other intangible assets		55	167
Tax assets	33	**260,225**	**286,186**
Current tax assets		2,757	8,853
Deferred tax assets		257,468	277,333
Other assets	34	**86,764**	**101,680**
Insurance contracts linked to pensions		-	-
Inventories		48,621	60,609
Rest of other assets		38,143	41,071
Non-current assets and disposal groups classified as held for sale	35	**207,496**	**227,235**
TOTAL ASSETS		**22,989,333**	**22,435,789**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 2.3).
(**) Presented solely and exclusively for comparative purposes (Note 2.5).
(**) See details in the consolidated cash flow statement.

Notes 1 to 72 and Annexes I to III are an integral part of the consolidated balance sheet as at 31 December 2018.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018
(Expressed in thousands of euros)

LIABILITY (*)	Note	2018	2017 (**)
Financial liabilities held for trading	23	**1,893**	**1,533**
Derivatives		1,893	1,533
Financial liabilities measured at amortized cost	36	**20,229,145**	**19,505,437**
Deposits		19,787,998	18,982,167
Central Banks		297,857	300,172
Credit institutions		9,061	69,141
Customers		19,481,080	18,612,854
Debt securities issued		104,631	149,550
Other financial liabilities		336,516	373,720
Memorandum-item: subordinated liabilities		-	-
Derivatives - Hedge accounting	28	**158,166**	**238,838**
Liabilities under insurance or reinsurance contracts	37	**590,477**	**579,907**
Provisions	38	**188,415**	**191,875**
Pensions and other post-employment defined benefit obligations		40,204	41,504
Other long-term employee benefits		-	-
Pending legal issues and tax litigation		-	-
Commitments and guarantees given		19,479	20,992
Other provisions		128,732	129,379
Tax liabilities	33	**58,043**	**112,498**
Current tax liabilities		4,474	4,572
Deferred tax liabilities		53,569	107,926
Other liabilities	34	**75,246**	**77,273**
Of which: community projects and social funds		*13,089*	*13,017*
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**21,301,385**	**20,707,361**

EQUITY (*)	Note	2018	2017
Own Funds	39	**1,688,843**	**1,619,363**
Capital		741,461	727,167
Paid up capital		741,461	727,167
Memorandum-item: capital not called up		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		858,321	809,891
Reserves or accumulated losses of investments in joint ventures and associates		191	144
Other		858,130	809,747
(-) Treasury shares		(1,620)	(1,431)
Profit/(loss) attributable to owners of the parent company		124,173	112,849
(-) Interim dividends		(33,492)	(29,113)
Accumulated other comprehensive income	40	**(895)**	**109,065**
Items that will not be reclassified to profit or loss		14,940	-
Items that may be reclassified to profit or loss		(15,835)	109,065
Minority interests (non-controlling interests)		**-**	**-**
Accumulated other comprehensive income		-	-
Other items		-	-
TOTAL EQUITY		**1,687,948**	**1,728,428**
TOTAL EQUITY AND TOTAL LIABILITIES		**22,989,333**	**22,435,789**

Memorandum-item	Note	2018	2017
Financial guarantees granted	43	**94,871**	**93,520**
Loan commitments granted	44	**989,896**	**960,576**
Other commitments granted	44	**289,202**	**280,463**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 2.3).
(**) Presented solely and exclusively for comparative purposes (Note 2.5).

Notes 1 to 72 and Annexes I to III are an integral part of the consolidated balance sheet as at 31 December 2018.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (*)

(Expressed in thousands of euros)

	Note	2018	2017 (**)
Interest income	45	279,485	268,232
(Interest expense)	46	33,013	20,889
NET INTEREST INCOME		246,472	247,343
Dividend income	47	11,646	3,653
Income from companies valued using the equity method	48	(168)	47
Fee and commission income	49	114,107	107,923
(Fee and commission expense)	50	12,582	11,527
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	51	25,834	43,983
Gains or (-) losses on financial assets and liabilities held for trading, net	52	69	870
Gains or (-) losses on financial assets not intended for trading, which are necessarily valued at fair value through profit or loss, net	51	(3,638)	
Gains or (-) losses on financial assets and liabilities recognised at fair value with changes in profit or loss, net	53	-	159
Gains or (-) losses from hedge accounting, net	54	(15,947)	117
Exchange differences [gains or (-) losses], net	55	543	(38)
Other operating income	56	15,118	16,247
(Other operating expenses)	57	41,323	47,187
Of which: Mandatory appropriation to community projects and social funds		*9,485*	*8,591*
Income from assets under insurance and reinsurance contracts	58	194,780	202,919
(Expenses on liabilities under insurance and reinsurance contracts)	59	140,171	153,019
GROSS MARGIN		394,740	411,490
(Administrative expenses)	60	227,041	232,355
(Staff expenses)		127,698	135,236
(Other administrative expenses)		99,343	97,119
(Depreciation)	61	17,424	18,027
(Provisions or (-) reversal of provisions)	62	21,375	26,785
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit or loss or (-) net gains on change)	63	12,268	13,815
(Financial assets at fair value with changes in other comprehensive income)		6,636	
(Financial assets at amortized cost)		5,632	
(Available-for-sale financial assets)			1,892
(Loans and receivables)			11,923
(Investments held to maturity)			-
(Impairment or (-) reversal of impairment of investments in joint ventures or associates)	64	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	65	(136)	2,708
(Tangible assets)		(136)	2,708
Gains or (-) losses on derecognition of non-financial assets, net	66	310	5,466
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	67	21,800	2,414
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		138,878	125,680
(Tax expenses or (-) income on the profit from ongoing activities)	41	14,705	12,831
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		124,173	112,849
Profit or (-) loss from discontinued operations		-	-
PROFIT/(LOSS) DURING THE YEAR		124,173	112,849
Attributable to minority interests (non-controlling interests)		-	-
Attributable to owners of the parent entity	39	124,173	112,849

(*) See details of the impacts from the adoption of IFRS 9 as at 1 January 2018 (Note 2.3).
(**) Presented solely and exclusively for comparative purposes (Note 2.5).

Notes 1 to 72 and Annexes I to III are an integral part of the consolidated income statement for the year ended 31 December 2018.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2018 (*)

(Expressed in thousands of euros)

	Note	2018	2017 (**)
PROFIT/(LOSS) DURING THE YEAR		**124,173**	**112,849**
OTHER COMPREHENSIVE INCOME		**(31,671)**	**(22,460)**
Items that will not be reclassified to profit or loss		**(6,588)**	**-**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	**40**	(9,089)	
Income tax related to items that will not be reclassified		2,501	-
Items that may be reclassified to profit or loss		**(25,083)**	**(22,460)**
Hedge of net investments in foreign operations (effective portion)		**-**	**-**
Foreign currency translation		**-**	**-**
Cash flow hedges (effective portion)	**40**	**945**	**(26,810)**
Valuation gains or (-) losses taken to equity		945	(26,810)
Transferred to profit or loss		-	-
Other reclassifications		-	-
Available-for-sale financial assets	**40**		**(4,384)**
Valuation gains or (-) losses taken to equity			37,288
Transferred to profit or loss			(41,672)
Other reclassifications			-
Hedging instruments (non-designated items)		**-**	
Debt instruments at fair value with changes in other comprehensive income		**(36,496)**	
Valuation gains or (-) losses taken to equity		(4,219)	
Transferred to profit or loss		(32,277)	
Other reclassifications		-	
Non-current assets and disposal groups held for sale		**-**	**-**
Share of other recognised income and expense of investments in joint ventures and associates		**-**	**-**
Income tax related to items that may be reclassified in profit or (-) loss	**41**	**10,468**	**8,734**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**92,502**	**90,389**
Attributable to minority interests (non-controlling interests)		-	-
Attributable to owners of the parent entity		92,502	90,389

(*) See details of the impacts from the adoption of IFRS 9 as at 1 January 2018 (Note 2.3).
(**) Presented solely and exclusively for comparative purposes (Note 2.5).

Notes 1 to 72 and Annexes I to III are an integral part of the consolidated statement of recognised income and expenditure for the year ended 31 December 2018.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(Expressed in thousands of euros)

As at 31 December 2018

Source of changes in equity (*)	Capital	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Minority interests	Total
Opening balance 01 January 2018	**727,167**	**809,891**	**(1,431)**	**112,849**	**(29,113)**	**109,065**	**-**	**1,728,428**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	(3,447)	-	-	-	(77,805)	-	(81,252)
Opening balance as at 1 January 2018 (**)	**727,167**	**806,444**	**(1,431)**	**112,849**	**(29,113)**	**31,260**	**-**	**1,647,176**
Total comprehensive income for the year	**-**	**-**	**-**	**124,173**	**-**	**(31,671)**	**-**	**92,502**
Other changes in equity	**14,294**	**51,877**	**(189)**	**(112,849)**	**(4,379)**	**(484)**	**-**	**(51,730)**
Issuance of ordinary shares	24,565	18	-	-	-	-	-	24,583
Issuance of preferred shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(10,271)	-	-	-	-	-	-	(10,271)
Dividends (or remuneration paid to partners)	-	-	-	(21,478)	(33,492)	-	-	(54,970)
Purchase of treasury shares	-	-	(189)	-	-	-	-	(189)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	49,371	-	(78,484)	29,113	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	2,488	-	(12,887)	-	(484)	-	(10,883)
Of which: discretionary appropriation to community projects and social funds	-	-	-	*(12,887)*	-	-	-	*(12,887)*
Closing balance 31 December 2018	**741,461**	**858,321**	**(1,620)**	**124,173**	**(33,492)**	**(895)**	**-**	**1,687,948**

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 2.3).
(**) Presented solely and exclusively for comparative purposes (Note 2.5).

Notes 1 to 72 and Annexes I to III are an integral part of the consolidated statement of total changes in equity for the year ended 31 December 2018.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED NET EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Expressed in thousands of euros)

As at 31 December 2017 (*)

Source of changes in equity	Capital	Other reserves	(-) Treasury shares	Profit/loss attributable to owners of the parent entity	(-) Interim dividends	Accumulated other comprehensive income	Minority interests	Total
Opening balance 1 January 2017	**712,957**	**766,469**	**(1,393)**	**103,473**	**(28,644)**	**131,525**	**-**	**1,684,387**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Opening balance 1 January 2017	**712,957**	**766,469**	**(1,393)**	**103,473**	**(28,644)**	**131,525**	**-**	**1,684,387**
Total comprehensive income for the year	**-**	**-**	**-**	**112,849**	**-**	**(22,460)**	**-**	**90,389**
Other changes in equity	**14,210**	**43,422**	**(38)**	**(103,473)**	**(469)**	**-**	**-**	**(46,348)**
Issuance of ordinary shares	21,795	3	-	-	-	-	-	21,798
Issuance of preferred shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(7,585)	-	-	-	-	-	-	(7,585)
Dividends (or remuneration paid to partners)	-	-	-	(19,583)	(29,113)	-	-	(48,696)
Purchase of treasury shares	-	-	(38)	-	-	-	-	(38)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	43,496	-	(72,140)	28,644	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	(77)	-	(11,750)	-	-	-	(11,827)
Of which: discretionary appropriation to community projects and social funds	-	-	-	*(11,750)*	-	-	-	*(11,750)*
Closing balance 31 December 2017	**727,167**	**809,891**	**(1,431)**	**112,849**	**(29,113)**	**109,065**	**-**	**1,728,428**

(*) Presented for comparative purposes only.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 (*)

(Expressed in thousands of euros)

	Note	2018	2017 (**)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**(253,226)**	**1,356,019**
Profit/(loss) for the year		**124,173**	**112,849**
Adjustments to obtain cash flows from operating activities		**65,552**	**63,990**
Depreciation	**61**	17,424	18,027
Other adjustments (a)		48,128	45,963
Net increase/decrease in operating assets		**(1,019,356)**	**156,853**
Financial assets held for trading		17,350	39,228
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss		39,338	
Financial assets designated at fair value through profit or loss		-	(2,114)
Financial assets at fair value with changes in other comprehensive income		(81,963)	
Available-for-sale financial assets			(65,380)
Financial assets at amortized cost		(1,040,498)	
Loans and receivables			158,554
Other operating assets		46,417	26,565
Net increase/decrease in operating liabilities		**577,183**	**1,023,305**
Financial liabilities held for trading		360	(764)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortized cost		723,708	1,017,529
Other operating liabilities		(146,885)	6,540
Collections/Payments due to income tax		**(778)**	**(978)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**32,061**	**85,470**
Payments		**(21,115)**	**(23)**
Tangible assets	**31**	(21,115)	-
Intangible assets		-	(23)
Investments in joint ventures and associates		-	-
Subsidiaries and other business units	**29**	-	-
Non-current assets and liabilities classified as held for sale		-	-
Investments held to maturity			-
Other payments related to investment activities		-	-
Collections		**53,176**	**85,493**
Tangible assets (b)	**31**	6,307	10,290
Intangible assets		1	-
Investments in joint ventures and associates	**29**	-	-
Subsidiaries and other business units	**29**	-	-
Non-current assets and liabilities classified as held for sale		46,868	55,988
Investments held to maturity			19,215
Other payments related to investment activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(53,734)**	**(46,274)**
Payments		**(56,839)**	**(48,487)**
Dividends	**39**	(33,492)	(29,113)
Subordinated liabilities		-	-
Own equity instruments amortization	**39**	(10,271)	(7,585)
Own equity instruments acquisition	**39**	(189)	(39)
Other payments related to financing activities	**4**	(12,877)	(11,750)
Collections		**3,105**	**2,213**
Subordinated liabilities		-	-
Issuance of own equity instruments	**39**	3,105	2,213
Disposal of own equity instruments		-	-
Other collections related to financing activities		-	-
D) EFFECT OF EXCHANGE RATE CHANGES		**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(274,899)**	**1,395,215**
F) CASH AND EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,848,245**	**453,030**
G) CASH AND EQUIVALENTS AT THE END OF THE YEAR		**1,573,346**	**1,848,245**
MEMORANDUM-ITEM			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**22**		
Of which: held by group companies but not available to the group		-	-
Cash		67,318	72,514
Balances of cash equivalents in central banks		1,395,458	1,682,657
Other financial assets		110,570	93,074
Less: Bank overdrafts reimbursable on demand		-	-

(*) See details of the impacts from the adoption of IFRS 9 as at 1 January 2018 (Note 2.3)
(**) Presented solely and exclusively for comparative purposes (Note 2.5).
(a) Include mainly, provisions for impairment and other provisions that have not result in a cash outflow.
(b) Include profit or loss generated on sale.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in thousands of euros)

1. Nature of the Entity

Caja Laboral Popular Coop. de Crédito (hereinafter, indistinctly, the Entity, the Parent Entity Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was incorporated on 2 November 2012 as a credit cooperative as a result of the merger, giving rise to a newly-created entity, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. This entity is a qualified cooperative.

The Parent Entity is supervised by the Bank of Spain and, in addition, as issuer of securities, by the National Securities Market Commission (Comisión Nacional del Mercado de Valores).

The Parent Entity's capital is not listed on the stock exchange.

1.1 Merger between Caja Laboral and Iparkutxa

In 2012, following the resolutions adopted by the governing bodies of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. The merger of the two entities was effected through the creation of a new credit union called "Caja Laboral Popular Coop. de Crédito", with the purpose, registered office, capital and other provisions detailed in its Articles of Association and governed by Law 13/1989, dated 26 May, on Credit Cooperatives and other applicable legal provisions.

Under the terms of the merger, the two merged credit cooperatives have been dissolved and extinguished without going into liquidation, resulting 2 November 2012, the date when was filed with the Companies Register of Gipuzkoa, date from which the operations of the merged entities would be deemed to have been performed by the New Credit Cooperative for accounting purposes.

1.2 Bylaws

The Bylaws of the Group's Parent Entity state that its business operations will not be limited to any specific territory and that its corporate purpose is to service the financial needs of its owners and third parties by carrying out the activities typical of credit institutions. To this end, it may carry out all kinds of lending, borrowing and servicing operations which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Credit cooperatives are regulated by sector-specific regulations, specifically including the requirement to:

a) Maintain a minimum percentage of liquid assets on deposit at the Bank of Spain in order to cover their minimum reserve coefficient requirements.

b) Contribute to the Deposit Guarantee Fund which is designed to guarantee deposit holders' ability to recover a minimum amount of their deposits.

c) Distribute the annual net surplus to the Education and Development Fund and to reserves.

d) To maintain a minimum level of capital that is determined by their risk-weighted assets.

Contribution to Intercooperative Cooperation Institutions

The Parent Entity, in accordance with the agreements of the MONDRAGON Conference held on 20 July 2016, contributes in the form of a grant to MONDRAGON Inversiones S. Coop. and to Fundación MONDRAGON, an amount equivalent to 15% of its net surplus available from the previous year (after taxes and interest on capital) deducted from the Inter-cooperative Social Fund (FSI) generated in the distribution of profit for the year.

Caja Laboral is the Parent Entity of a Group of Investee Entities that comprise Caja Laboral Popular and its Investee Entities (hereinafter, the Group or Laboral Kutxa Group). As a result, the Parent Entity is obliged to present, in addition to its own individual annual financial statements, which must be audited, consolidated annual financial statements for the Group of which it is parent, which show any and all investments in subsidiaries, jointly controlled entities and associates. The entities comprising the Group carry out diverse business activities.

As at 31 December 2018, the total assets and equity of the Parent Entity represented 96.95%, 95.95% and 95.77%, respectively, of total Group assets and equity (as at 31 December 2017: 97.01%, 96.10% and 94.37%, respectively).

The following is a summary of the individual balance sheet, individual profit and loss account, individual statement of recognised income and expenses, individual statement of changes in total equity and individual statement of cash flows of the Parent Company for the years ended 31 December 2018 and 2017, prepared in accordance with the same accounting principles and standards and measurement criteria applicable to the individual annual accounts of the Parent Company.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in thousands of euros)

a) Individual balance sheets at 31 December 2018:

ASSETS	2018	2017 (*)
Cash, cash balances at central Banks and other on demand deposits	1,552,392	1,822,276
Financial assets held for trading	126,617	143,920
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	26,969	
Financial assets at fair value with changes in other comprehensive income	640,278	
Available-for-sale financial assets		4,563,443
Financial assets at amortized cost	18,848,602	
Loans and receivables		13,739,368
Investments held to maturity		349,525
Derivatives - Hedge accounting	148,906	143,642
Investments in dependents, joint ventures and associates	141,128	159,694
Tangible assets	297,989	304,941
Intangible assets	-	-
Tax assets	257,828	278,164
Other assets	43,356	45,241
Non-current assets and disposal groups of items classified as held for sale	202,926	216,314
Total assets	22,286,991	21,766,528

LIABILITIES AND EQUITY	2018	2017 (*)
Financial liabilities held for trading	1,893	1,533
Financial liabilities measured at amortized cost	20,210,125	19,515,330
Derivatives - Hedge accounting	158,166	238,838
Provisions	188,915	190,604
Tax liabilities	42,674	93,745
Share capital repayable on demand	-	-
Other liabilities	65,579	65,378
Total liabilities	20,667,352	20,105,428
Own Funds:	1,637,898	1,575,077
Capital	741,461	727,167
Other reserves	811,076	770,589
Profit/(loss) for the year	118,926	106,491
(Interim dividends)	(33,565)	(29,170)
Accumulated other comprehensive income	(18,259)	86,023
Total equity	1,619,639	1,661,100
Total equity and liabilities	22,286,991	21,766,528

MEMORANDUM-ITEM	2018	2017 (*)
Financial guarantees granted	106,394	106,584
Loan commitments granted	990,296	970,976
Other commitments granted	314,328	296,828

(*) Presented for comparative purposes only.

(Expressed in thousands of euros)

b) Individual profit and loss account for the year ended 31 December 2018:

	2018	2017 (*)
Interest income	262,421	252,492
(Interest expense)	33,005	20,889
Net interest income	229,416	231,603
Dividend income	17,361	10,804
Fee and commission income	101,101	95,729
(Fee and commission expense)	6,634	5,367
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25,597	42,862
Gains or (-) losses on financial assets and liabilities held for trading, net	227	441
Gains or (-) losses on financial assets not intended for trading, which are necessarily valued at fair value through profit or loss, net	(1,951)	
Gains or (-) losses from hedge accounting, net	(15,947)	117
Exchange differences [gains or (-) losses], net	543	(38)
Other operating income	39,960	35,988
(Other operating expenses)	41,316	46,906
Gross income	348,357	365,233
(Administrative expenses)	183,686	184,841
(Depreciation)	16,896	17,415
(Provisions or (-) reversal of provisions)	21,375	26,785
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit or loss or (-) net gains on change)	15,554	18,157
(Impairment or (-) reversal of impairment of investments in dependents, joint ventures or associates)	(15,330)	(2,741)
(Impairment or (-) reversal of impairment on non-financial assets)	77	2,847
Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	306	5,466
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	3,939	(8,222)
Profit or (-) loss before tax from continuing operations	130,344	115,173
(Tax expenses or (-) income on the profit from ongoing activities)	11,418	8,682
Profit or (-) loss after tax from continuing operations	118,926	106,491
Profit or (-) loss from discontinued operations	-	-
Profit/(loss) for the year	118,926	106,491

(*) Presented for comparative purposes only.

(Expressed in thousands of euros)

c) Individual statement of recognised income and expenses relating to the year ended 31 December 2018:

	2018	2017 (*)
PROFIT/(LOSS) DURING THE YEAR	**118,926**	**106,491**
OTHER COMPREHENSIVE INCOME	**(26,234)**	**(17,187)**
Items that will not be reclassified to profit or loss	**(4,749)**	**-**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	(6,596)	
Income tax related to items that will not be reclassified	1,847	-
Items that may be reclassified to profit or loss	**(21,485)**	**(17,187)**
Cash flow hedges (effective portion)	**945**	**(26,810)**
Valuation gains or (-) losses taken to equity	945	(26,810)
Available-for-sale financial assets		**2,940**
Valuation gains or (-) losses taken to equity		43,249
Transferred to profit or loss		(40,309)
Debt instruments at fair value with changes in other comprehensive income	**(30,785)**	
Valuation gains or (-) losses taken to equity	1,353	
Transferred to profit or loss	(32,138)	
Other reclassifications		
Income tax related to items that may be reclassified in profit or (-) loss	**8,355**	**6,683**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**92,692**	**89,304**

(*) Presented for comparative purposes only.

d) Statement of changes in total equity for the year ended 31 December 2018:

Variation during 2018

	Own Funds	Accumulated other comprehensive income	Total equity
Opening balance 01 January 2018	**1,575,077**	**86,023**	**1,661,100**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	(3,878)	(77,374)	(81,252)
Opening balance 01 January 2018	**1,571,199**	**8,649**	**1,579,848**
Total comprehensive income for the year	**118,926**	**(26,234)**	**92,692**
Other changes in equity			
- Issuance of ordinary shares	24,583	-	24,583
- Capital reduction	(10,271)	-	(10,271)
- Dividends (or remuneration paid to partners)	(55,043)	-	(55,043)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(11,496)	(674)	(12,170)
Total other changes in equity	**(52,227)**	**(674)**	**(52,901)**
Closing balance 31 December 2018	**1,637,898**	**(18,259)**	**1,619,639**

(Expressed in thousands of euros)

Variation during 2017 (*)

	Own Funds	Accumulated other comprehensive income	Total equity
Opening balance 1 January 2017	**1,514,877**	**103,210**	**1,618,087**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance 1 January 2017	**1,514,877**	**103,210**	**1,618,087**
Total comprehensive income for the year	**106,491**	**(17,187)**	**89,304**
Other changes in equity			
- Issuance of ordinary shares	21,797	-	21,797
- Capital reduction	(7,585)	-	(7,585)
- Dividends (or remuneration paid to partners)	(48,753)	-	(48,753)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(11,750)	-	(11,750)
Total other changes in equity	**(46,291)**	**-**	**(46,291)**
Closing balance 31 December 2017	**1,575,077**	**86,023**	**1,661,100**

(*) Presented for comparative purposes only.

e) Individual cash flow statement for the year ended 31 December 2018:

	2018	2017 (*)
Cash flows from operating activities:	**(280,693)**	**1,390,288**
Profit/(loss) for the year	118,926	106,491
Adjustments made to obtain cash flows from operating activities	47,300	100,937
Net Increase/Decrease in operating assets	(1,024,755)	178,190
Net increase/ decrease in operating liabilities	578,614	1,005,649
Collections/(Payments) due to income tax	(778)	(979)
Cash flows from investment activities:	**64,427**	**51,449**
Payments	(27,106)	(24,351)
Collections	91,533	75,800
Cash flows from financing activities	**(53,618)**	**(46,291)**
Effect of exchange rate change	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**(269,884)**	**1,395,446**
Cash and cash equivalents at the beginning of the year	**1,822,276**	**426,830**
Cash and cash equivalents at the end of the year	**1,552,392**	**1,822,276**

(*) Presented for comparative purposes only.

2. Basis for presentation of the consolidated annual accounts

2.1 Fair presentation

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, of 19 July 2002, all companies governed by the law of a member state of the European Union and whose securities are listed on a regulated market of one of the Member States of the European Union must present their consolidated annual accounts for the years beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (hereinafter IFRS) previously adopted by the European Union, hereinafter EU-IFRS. In order to adapt the accounting system of Spanish credit institutions to these standards, the Bank of Spain published Circular 4/2004, of 22 December, regarding Public and Reserved Financial Reporting Standards and Model Financial Statements, which was repealed on 1 January 2018 by virtue of the Bank of Spain Circular 4/2017, of 27 November 2017.

The Group's consolidated annual accounts for the 2017 financial year were prepared by the directors of the Parent Company in accordance with the International Financial Reporting Standards adopted by the European Union, taking into account the Bank of Spain Circular 4/2004 and its subsequent amendments and in compliance with the International Financial Reporting Standards adopted by the International Accounting Standards Board (IFRS - IASB), applying the consolidation principles, accounting policies and valuation criteria described in note 2 to these annual accounts, in such a way as to give a true and fair view of the Entity's net worth and financial position as at 31 December 2017 and of the results of its operations, recognised income and expenditure, changes in equity and cash flows that occurred in 2017.

These consolidated annual accounts of the Group are presented in accordance with International Financial Reporting Standards adopted by the European Union as at 31 December 2018 (hereinafter, "EU-IFRS"), taking into consideration the Bank of Spain Circular 4/2017, of 22 November, which replaces Bank of Spain Circular 4/2004, of 22 December, and its subsequent amendments. This circular represents the application and adaptation to the sector of Spanish credit institutions of the International Financial Reporting Standards approved by the European Union.

In this report, the abbreviations "IAS" and "IFRS" are used to refer to International Accounting Standards and International Financial Reporting Standards, respectively, and the abbreviations "IFRIC" and "SIC" are used to refer to the interpretations of the International Financial Reporting Standards Interpretations Committee and the previous Interpretations Committee, respectively, all of which were approved by the European Union and on the basis of which these consolidated annual accounts were prepared.

The consolidated annual accounts were prepared taking into account all of the accounting principles and norms and the obligatory valuation criteria that have a significant effect on these, so that they reflect a true image of the equity and of the financial situation of the Group at 31 December 2018 and of the consolidated results of its operations, changes in net equity and cash flows that took place in the Group during the year ended on that date.

Note 13 summarises the most significant accounting principles and policies and the valuation criteria applied in the preparation of the consolidated annual accounts of the Group for 2018.

The consolidated annual accounts were prepared from the accounting records held by the Entity and by the other entities that are part the Group. However, since the accounting principles and valuation criteria applied in the preparation of the consolidated annual accounts of the Group for 2018 may differ from those applied by some of the entities that are part of the group, the adjustments and reclassifications needed were introduced during the consolidation process to homogenise these principles and criteria and to adequate them to those of IFRS-EU applied by the Entity.

The information contained in these present consolidated annual accounts is the responsibility of the directors of the Parent Company of the Group.

The Group's consolidated financial statements for 2018 were authorized for issue by the directors of the Group's Parent Company at a Governing Board meeting held on 28 February 2019. They are expected to be approved at the Parent Company's General Assembly without any material modification.

The accompanying consolidated financial statements are expressed in thousands of euros, unless expressly indicated to the contrary.

2.2 Consolidation principles

The Group has been defined in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. All subsidiaries, jointly-controlled entities and associates are investee companies.

2.2.1) Dependent Entities

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

For control to exist, the following must be applicable:

- Power: An investor has power over an investee when it holds rights in effect which provide it with the capacity to direct its relevant activities, i.e. those which significantly affect the investee's returns.

- Returns: An investor is exposed, or has rights, to variable returns from its involvement in the investee when the returns it obtains from such involvement may vary depending on the investee's business performance. The returns may be only positive, only negative or both positive and negative.

- Relationship between power and returns: An investor controls an investee if the investor not only has power over the investee and is exposed, or has rights, to variable returns due to its involvement in the investee, but also the capacity to use its power to influence the returns obtained from such involvement in the investee.

Additionally, the Group takes into account any facts or circumstances which may affect the assessment of whether or not control exists and the analyses described in the guidelines for the implementation of the relevant legislation (for example, whether the Group holds a direct or indirect interest of more than 50% of the voting power of the entity being evaluated).

Information related to holdings in Dependent Entities at 31 December 2018 and 2017 is shown in Appendix I.

The annual accounts of the dependent entities are consolidated with the Entity applying the full consolidation method. As a result, all the balances derived from the transaction between the consolidated companies under this method that are significant have been eliminated in the consolidation process. Additionally, the participation of third parties in:

- The net equity of the Group, are presented under the heading "Minority Interests" of net equity on the consolidated balance sheet.

- The consolidated results for the year, are presented under the heading "Profit/(loss) during the year - Attributable to minority interests (non-controlling interests)" in the consolidated income statement.

The consolidation of the results generated by the dependent entities acquired by the Group during the year is performed taking into account, exclusively, those related to the period between the date of acquisition and close of the year. Additionally, the results generated by entities disposed of by the Group during the year is performed taking into account, exclusively, those related to the period between the beginning of the year and the date of disposal.

Intercompany transactions are eliminated, along with the balances, income and expenses in transactions between entities of the Group. The profits and losses arising from intragroup transactions are also eliminated when registered as assets. The accounting policies of dependent entities have been modified when it was necessary to ensure uniformity with the policies adopted by the Group.

In addition to the Dependent Entities, the Parent Company has included through full consolidation the securitised funds "I.M. Caja Laboral 1, F.T.A. " and "I.M. Caja Laboral 2, F.T.A. ", entities established for the securitization of mortgage loans and the later issue of securitization bonds (see Note 2.2.6).

To book business combinations the Group applies the acquisition method. The consideration transferred for the acquisition of a dependent entity corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners of the entity and the participations in equity issued by the Group. The consideration transferred includes the fair value of any asset or liability arising from an agreement covering contingent considerations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. In each business combination, the Group may opt to recognise any non-dominant participation in the acquired entity at fair value or at the proportional part of the non-dominant participation of the amounts recognised for the net identifiable assets of the acquired entity.

Costs related to the acquisition are recognized as expenses in the financial year in which they were incurred.

If the business combination is undertaken in stages, fair value on the date of acquisition of the participation in the net equity of the acquired entity held previously by the acquirer will be re-valued at fair value on the date of acquisition through the results for the year.

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 either in profit and loss or as a change in equity. A contingent consideration classified as net equity is not re-valued and its later settlement is booked within net equity.

Goodwill is initially valued as the surplus between the total consideration transferred and fair value of the non-controlling interest in the net identifiable assets acquired and the liabilities assumed. If this consideration is less that the fair value of the net assets of the dependent entity acquired, the difference is recognised in the consolidated results.

The Group's insurance companies are subject to supervision and regulations by various bodies. The laws in force in the different jurisdictions together with the need to meet minimum capital requirements and supervisory actions are matters that could affect these institutions' capacity to transfer funds in the form of cash, dividends, loans or advances.

2.2.2) Changes in the participation in the ownership of dependent entities without a change in control.

Transaction in non-dominant participations that do not result in loss of control are booked as equity transactions, that is, as transactions with the owners in their condition as such. The difference between the fair value of the consideration paid and the corresponding proportion acquired of the carrying amount of the net assets of the dependent entity is booked as net equity. The gains or losses on disposal of non-dominant participations are also recognised in net equity.

2.2.3) Disposal of dependent entities

When the Group ceases to hold control, any participation retained in the entity is remeasured at fair value on the date on which control was lost, recognising the change in the carrying amount in books in the results. The fair value is the amount initially booked for the purpose of later recognition of the participation held as an associate, joint venture or financial asset. Moreover, any amount previously recognised in Valuation Adjustments in net equity related to this entity is booked as if the Group had directly sold the related assets or liabilities. This could mean that the amounts previously recognised in net equity are reclassified to the consolidated results.

2.2.4) Joint ventures - Jointly-controlled entities

A joint venture is a contractual arrangement whereby two or more entities, denominated ventures, undertake an economic activity that is subject to joint control, that is, to a contractual agreement to share the power to govern the financial and operating policies of an entity or other economic activity, in order to benefit from its operations, in which the unanimous consent of all ventures, which share control and have rights to its net assets, is required for taking decisions on relevant activities.

Likewise, those participations in entities that, not being dependent, are controlled jointly by two or more entities not linked between themselves, among which is the Group, are also considered as joint ventures.

The equity method of consolidation has been used for the annual accounts of joint ventures -jointly-controlled entities, in accordance with accounting regulations.

As at 31 December 2018 and 2017 there were no investments in Jointly controlled Entities.

2.2.5) Associated entities

Those participated companies over which the Group has the capacity to exert significant influence are considered as associated entities. This significant influence is demonstrated, in general, although not exclusively, by holding a participation, directly or indirectly through another or other participated companies, of 20% or more of the voting rights of the participated company.

In the consolidation process the participation method was applied for associated entities, as is defined in IAS 28. Consequently, the participations in the associated entities were valued by the fraction that the Group's participation represents in their capital once the dividends received from them have been considered along with other equity eliminations. The results from transactions with an associated entity are eliminated in the proportion that the Group's participation represents. If as a result of the losses which an associated entity has suffered its equity in the accounts is negative, on the consolidated balance sheet of the Group this would appear at nil value, unless there is an obligation by the Group to back the entity financially.

However, as at 31 December 2017, the Group had holdings of more than 20% in the share capital of certain companies, which were not classified as Associated Companies, since the Group considered that it did not have significant influence over those companies since there was a firm commitment by MONDRAGON Inversiones, S.P.E., S.Coop. to purchase such holdings for a fixed price. This firm purchase commitment was executed in 2018 and, therefore, the carrying amount of these investments as at 31 December 2018 and 2017 was 0 thousand euros and 3,943 thousand euros, respectively (see Note 25).

The relevant information on holdings in Associated Entities as at 31 December 2018 and 2017 are shown in Appendix I.

Because the accounting principles and norms and the valuation criteria applied in the preparation of the consolidated annual accounts of the Group for the years 2018 and 2017 may differ from those applied in some of the subsidiaries, jointly-controlled entities and associates, during the consolidation process any significant adjustments or reclassifications required were applied to homogenize the accounting principles and norms and the valuation criteria.

At 31 December 2018 and 2017, no entity in the Group held a participation in the capital of other credit entities, national or foreign, equal to 5% or more of their capital or voting rights.

Likewise, at 31 December 2018 and 2017, no credit entity, national or foreign, or groups, as understood under article 4 of the Securities Market Law, which includes a credit entity, national or foreign, possesses any holding of more than 5% of the capital or voting rights of any credit entity included in the Group.

2.2.6) Structured entities

In those cases in which the Group invests in or incorporates entities for the transfer of risks or other purposes, or for the purpose of allowing customers access to certain investments, it is determined, considering the provisions of the regulatory framework, whether control as described above exists and therefore whether or not they should be consolidated. In particular, whether the Group obtains success fees and the possibility of terminating relations with the managers of the underlying assets are taken into consideration. These entities include asset back securitisation funds which are consolidated in cases where, based on the above analysis, it is determined that the Group has maintained control.

At 31 December 2018 and 2017 the contractual agreements for financial support to consolidated structured entities pertain to the support mechanisms which are commonly used in the securitisation market. There are no significant financial support agreements other than those covered by the relevant contracts. Note 26 to the consolidated annual accounts provides information on the balances related to consolidated structured entities.

Voluntary benefit entities, investment funds and pension funds and companies managed by the Group (in most cases, retail funds without a legal personality in which investors acquire aliquot units providing them with ownership of the managed assets) are not regarded as meeting the requirements of the regulatory framework to be considered as structured entities, in addition to the fact that they are analysed using the same criteria as other dependent entities.

These entities and funds are self-sufficient as far as their activities are concerned and do not depend on a capital structure that could make them unable to carry on their activities without additional financial support. Fees accrued during the year for the services rendered to these entities and funds by Group (asset management services, portfolio deposits, etc.) are recorded under Fees received in the consolidated income statement (Note 49) together with fees generated by the depositing of portfolios owned by third parties.

2.2.7) Changes in the scope of consolidation

Changes in the scope of consolidation during 2018

There were no changes in the scope of consolidation during 2018.

Changes in the scope of consolidation during 2017

In 2017 the company of Grupo Credilka, S.A. was dissolved and liquidated in accordance with Article 38 of the Spanish Companies Act, which did not have a significant impact on the consolidated financial statements as at 31 December 2017.

2.3 Entry into force of IFRS 9 - Financial instruments

On 1 January 2018, IFRS 9 "Financial instruments", adopted by the European Union, entered into force. This standard introduces changes compared to the previous regulations regarding the classification, valuation and recognition of financial assets and liabilities.

The impact of the adoption of this standard is significant, which is why the provisions of IAS 8 "Accounting policies, changes in accounting estimates and errors" and the transitional provisions for applying the standard itself have been taken into account (see section 2.5. "Comparability of information").

The main elements of this standard are as follows:

- IFRS 9 retains but simplifies the mixed valuation model and establishes three main categories of measurement for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the characteristics of the contractual cash flows of the financial asset. It requires investments in equity instruments to be measured at fair value through profit or loss with the irrevocable option at the outset to present the changes in fair value in non-recyclable other comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are reported in profit or loss.

  In relation to financial liabilities, IFRS 9 is unchanged regarding classification and valuation except for the recognition of changes in own credit risk in other comprehensive income for liabilities stated at fair value through profit or loss.

- Under IFRS 9, there is a new model of "expected credit losses", which replaces the model of "impairment losses incurred" in IAS 39, and which gives rise to a recognition of losses earlier than was the case before.

  In accordance with this methodology, operations, after their initial recognition, are classified as "Stage 1" and expected losses are recognized in the following 12 months. If there is a significant increase in the risk of default with respect to the risk existing at the time of the initial recognition of the transaction, the operations are classified as "Stage 2", recognising expected losses for the term corresponding to the residual maturity of the operation, taking into account any extension options that may be exercised. Finally, when the operations are impaired, that is, those in which part of the investment is not expected to be recovered taking into account the time value of the money, they are classified as "Stage 3", recognising the expected loss at the residual maturity of the operations. Similarly, in impaired operations, interest is recognised on the basis of its book value net of provisions rather than the gross amount before provisions.

- IFRS 9 relaxes the requirements for hedge effectiveness, requiring an economic relationship between the hedged item and the hedging instrument and requiring the hedged ratio to be the same as the entity's actual risk management ratio. Under the above regulations, a hedge is highly effective, both prospectively and retrospectively.

In 2017, the Group implemented an adaptation project, supervised by the Governing Board, covering the following areas, for the first application of the standard on 1 January 2018:

a) Classification and valuation of financial instruments

The existing business models in the Group have been evaluated and identified, as well as the classification of the instruments according to these business models and compliance with the conditions "payment of principal and interest only" (SPPI test).

The main qualitative impacts for the Group in this area are as follows:

- The classification and valuation of the financial assets in the "Loans and receivables" portfolio has not undergone any significant changes, as it follows a business model based on obtaining the contractual flows of the underlying financial assets in the different credit portfolios. Similarly, the analysis carried out has not identified portfolios with special characteristics that result in the non-fulfilment of the contractual cash flow criteria established in IFRS 9 for measuring the amortised cost.

- On 1 January 2018, the Governing Board and the Assets and Liabilities Committee of the Parent Entity assessed the appropriate business models for the various sub-portfolios comprising the old "Financial assets available for sale" and "Investments held-to-maturity " portfolios, taking into account factors such as the frequency, timing and amount made from sales in previous years, the reasons for such sales, the sensitivity to interest rates and projections of future sales. In this regard, there have been significant reclassifications of portfolios of debt securities from fair value with changes in other comprehensive income to amortised cost. Fixed-income assets that do not meet the contractual cash flow criteria established in IFRS 9 were also reclassified from fair value with changes in other comprehensive income to fair value with changes in income.

- Certain equity instruments that were classified in the "Financial assets available for sale" portfolio have been classified at fair value with changes in the profit and loss account, mainly collective investment undertakings.

- The "Financial assets held for trading" portfolio has remained unchanged and is classified as fair value through profit and loss.

- The Group has not experienced any changes in financial liabilities as it does not have any liabilities that are measured at fair value through profit and loss.

b) Measurement of significant impairment of credit risk in financial instruments

The new impairment model based on expected credit losses has resulted in an increase in provisions in the loan investment portfolio. The Group has applied impairment models based on collective and individualised estimates for calculating the estimated expected loss under a transaction classification system that allows them to be allocated to the different risk phases of the standard.

The impairment estimation process takes into account all credit exposures, both debt instruments and off-balance sheet exposures. The Group has used the parameters and methodology established by the IFRS in force, under an expected loss methodology, as well as the rest of the local regulations in force, based on the statistical data and models which aggregate the average performance of the banking sector entities in Spain and which support their full compatibility with the framework formed by the IFRS, to define the classification and calculation of the extent to which the Group's balance sheet and off-balance sheet exposures maintained with customers are impaired. This methodology takes into account, among other matters, the segment of credit risk to which the transaction belongs, effective collateral and personal guarantees received, the economic-financial situation of the debtor and, if applicable, the age of overdue amounts.

c) Hedge accounting

The Group has opted to maintain the hedge accounting of IAS 39, so there have been no changes in this area.

d) Other impacts

It should also be noted that the accounting system for foreclosed properties remains substantially unchanged with respect to the content of the repealed Circular 4/2016, although some clarifications are introduced. Firstly, it is stressed that foreclosed assets must be valued on the basis of current market conditions, without taking into account possible future revaluations, and secondly, the classification criteria for foreclosed properties are included in an integrated manner, maintaining the preference criterion for their recognition as non-current assets held for sale, in line with the usual aim of their sale in the shortest possible time by the credit institutions, as opposed to other possible purposes of continued use, less suited to their usual activity. Also, the hedging percentages defined by the Bank of Spain, based on its experience and information regarding the Spanish banking sector and forecasts of future conditions, have been tightened. The Company has estimated the impact of the new impairment criteria on outstanding operations as at 1 January 2018.

Lastly, the main qualitative impacts incurred by the Group as a result of the retroactive application of the standard to contracts in force as at 1 January 2018 are as follows:

- *Credit charges that form an integral part of the actual cost or performance of such transactions:* Under IFRS 9, these charges must be deferred and recognised in the consolidated profit and loss account over the life of the transaction, replacing the previous criterion in IAS 39, under which direct costs related to services could be allocated at the time the transaction occurred. The Entity has estimated the impact of the full deferral of the aforementioned previously allocated direct costs on the transactions outstanding as at 1 January 2018.

For the breakdowns in the notes, the amendments to IFRS 9 have only been applied to the current period. The breakdowns of the comparative reporting period notes maintain the breakdowns applicable in the previous year (Note 2.5).

(Expressed in thousands of euros)

The following is a breakdown of the impact of the adoption of IFRS 9 on the Group:

Classification and measurement of financial instruments

The following table shows a comparison between IAS 39 as at 31 December 2017 and IFRS 9 as at 1 January 2018 of the financial instruments reclassified in accordance with the new classification and measurement requirements of IFRS 9 (without impairment or restatement of book value as at 1 January 2018), as well as their book value:

	IAS 39		IFRS 9	
Balance sheet	**Portfolio**	**Book value (Thousands of euros)**	**Portfolio**	**Book value (Thousands of euros)**
Equity instruments	Financial assets available for sale (including those that were valued at cost in December)	223,912	Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	89,969
			Financial assets at fair value with changes in other comprehensive income	133,943
	Financial assets designated at fair value through profit or loss	380	Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	380
Debt securities	Financial assets designated at fair value through profit or loss	2,137	Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	2,137
	Available-for-sale financial assets	4,857,282	Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	8,988
			Financial assets at amortized cost	3,877,967
			Financial assets at fair value with changes in other comprehensive income	970,327
	Investments held to maturity	410,937	Financial assets at amortized cost	461,297
	Loans and receivables	50,360		
Loans and advances	Loans and receivables	13,746,458	Financial assets at amortized cost	13,746,458

Reconciliation of impairment adjustments from IAS 39 to IFRS 9

The table below shows a reconciliation between IAS 39 as at 31 December 2017 and IFRS 9 as at 1 January 2018 of the impairment adjustments for financial instruments in accordance with the new requirements of IFRS 9 (after reclassification of portfolios):

	Thousands of euros		
	IAS 39 31-12-2017	**Impairment impact**	**IFRS 9 01-01-2018**
Financial assets at amortized cost	**387,984**	**10,160**	**398,144**
Loans and advances	387,441	10,160	397,601
Debt securities	543	-	543
Financial assets at fair value with changes in other comprehensive income	**10,969**	**-**	**10,969**
Debt securities	10,969	-	10,969
Non-current assets and disposal groups classified as held for sale	**523,512**	**(219)**	**523,293**
Commitments and guarantees given	**20,992**	**-**	**20,992**
	943,457	**9,941**	**953,398**

(Expressed in thousands of euros)

Reconciliation of the balance sheet from IAS 39 to IFRS 9

The details of the reconciliation of the consolidated balance sheet under IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 are as follows, distinguishing between the impacts due to classification and measurement and those due to impairment once IFRS 9 has been adopted (only the items in the consolidated balance sheet that have undergone changes are included):

	Thousands of euros				
ASSETS	**IAS 39 31-12-2017**	**Change of nomenclature (*)**	**Impact due to classification and measurement / charges**	**Impairment impact / Other**	**IFRS 9 01-01-2018**
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss		**-**	**101,474**	**-**	**101,474**
Equity instruments		-	90,349 (c)	-	90,349
Debt securities		-	11,125 (d)	-	11,125
Financial assets at fair value with changes in other comprehensive income		**1,104,270**	**-**	**-**	**1,104,270**
Equity instruments		133,943 (c)	-	-	133,943
Debt securities		970,327 (d)	-	-	970,327
Financial assets designated at fair value through profit or loss	**2,517**	**-**	**(2,517)**	-	-
Equity instruments	380	-	(380) (i)	-	-
Debt securities	2,137	-	(2,137) (i)	-	-
Available-for-sale financial assets	**5,081,194**	**(1,104,270)**	**(3,976,924)**	**-**	
Equity instruments	223,912	(133,943) (c)	(89,969) (c)	-	
Debt securities	4,857,282	(970,327) (d)	(3,886,955) (d)	-	
Financial assets at amortized cost		**14,207,755**	**3,775,053**	**(10,160)**	**17,972,648**
Debt securities		461,297 (b)	3,782,064 (d)	-	4,243,361
Loans and advances		13,746,458 (a)	(7,011) (f)	(10,160) (e)	13,729,287
Loans and receivables	**13,796,818**	**(13,796,818)** (a)	**-**	**-**	
Debt securities	50,360	(50,360)	-	-	
Loans and advances	13,746,458	(13,746,458)	-	-	
Investments held to maturity	**410,937**	**(410,937)** (b)	**-**	**-**	
Non-current assets and disposal groups classified as held for sale	**227,235**	**-**	**-**	**219** (g)	**227,454**
Tax assets	**286,186**	**-**	**-**	**4,524** (h)	**290,710**
TOTAL ASSETS	**22,435,789**	**-**	**(102,914)**	**(5,417)**	**22,327,458**

(*) Due to the entry into force of IFRS 9.

a) The amounts classified under "Loans and Receivables" as at 31 December 2017 are reclassified to "Financial assets at amortised cost" as a result of the change in the name of this portfolio arising from the entry into force of IFRS 9.

b) The instruments classified under " Held-to-maturity investments" as at 31 December 2017 were reclassified to "Financial assets at amortised cost" as a result of the change in the name of this portfolio arising from the entry into force of IFRS 9.

c) Equity instruments classified under "Available-for-Sale Financial Assets" as at 31 December 2017 were reclassified to "Financial assets at fair value with changes in other comprehensive income" (due to changes in the name under IFRS 9), except for certain securities that do not comply with the SPPI test, mainly holdings in investment funds and venture capital funds, which are reclassified to "Non-tradable financial assets mandatorily measured at fair value with changes in profit or loss". Gross unrealised gains of 13,176 thousand euros have been reclassified to reserves due to the reclassification of these assets that did not comply with the SPPI test.

d) Following the review of the portfolio business models, the Group has identified several sub-portfolios of debt instruments totalling a fair value of 3,877,967 thousand euros as at 31 December 2017 under the " Available-for-sale financial assets" heading, which will be managed with a view to maintaining the financial instruments in the portfolio until their maturity; therefore, they have been reclassified under the heading "Financial assets at amortised cost - debt securities". All the assets included in these sub-portfolios comply with the SPPI test. As a result of this reclassification, gross unrealised gains amounting to 95,903 thousand euros (after deducting the micro-hedging adjustments associated with the hedged items) were derecognised and valued at amortised cost. Furthermore, the other debt instruments recognised in the "Available-for-sale financial assets" portfolio as at 31 December 2017 were reclassified to "Financial assets at fair value through other comprehensive income" as a result of the change in the name under IFRS 9, except for a reference with a market value of 8,988 thousand euros that did not comply with the SPPI test and, therefore, was reclassified to "Financial assets not held for trading, mandatorily measured at fair value through profit or loss". The gross losses on the latter asset, amounting to 1,012 thousand euros, have been reclassified to reserves (net of tax).

e) Corresponds to the increase in provisions due to impairment of the value of the assets included under "Financial assets at amortised cost" arising from the change in accounting policy.

f) Corresponds to the impact caused by the change in the methodology for recording credit charges.

(Expressed in thousands of euros)

g) Corresponds to the reduction in impairment of the assets included under the heading " Non-current assets and disposal groups of items classified as held for sale" amounting to 219 thousand euros.

h) Corresponds to the tax effect of the increase in provisions due to impairment and charges.

i) Certain fixed-income and equity securities contributed by the Group's insurance business, classified as at 31 December 2017 under the heading "Financial assets designated at fair value through profit or loss", have been reclassified to the heading "Financial assets not held for trading, mandatorily valued at fair value through profit or loss" in order to maintain a portfolio management model in line with the Parent Company. This reclassification has not had any impact on "Reserves" or "Accumulated other comprehensive income".

	Thousands of euros					
LIABILITIES	**IAS 39 31-12-2017**	**Change of nomenclature (*)**	**Impact due to classification and measurement / charges**	**Impairment impact / Other**		**IFRS 9 01-01-2018**
Tax liabilities	**112,498**	**-**	**-**	**(27,079)**	**(a)**	**85,419**
TOTAL LIABILITIES	**20,707,361**	**-**	**-**	**(27,079)**		**20,680,282**

(*) Due to the entry into force of IFRS 9.

a) Corresponds to the tax effect of the unrecognised unrealised gains as a result of the portfolio reclassifications as at 1 January 2018, mentioned in the table above.

	Thousands of euros				
EQUITY	**IAS 39 31-12-2017**	**Change of nomenclature (*)**	**Impact due to classification and measurement / charges**	**Impairment impact / Other**	**IFRS 9 01-01-2018**
OWN FUNDS	**1,619,363**	**-**	**3,710**	**(7,157)**	**1,615,916**
Other reserves	809,891	-	3,710 (d)	(7,157) (d)	806,444
Accumulated other comprehensive income	**109,065**		**(77,805)**	**-**	**31,260**
Items that will not be reclassified to profit or loss	**-**	**31,393**	**(9,486)**	**-**	**21,907**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		31,393 (a)	(9,486) (c)	-	21,907
Items that may be reclassified to profit or loss	**109,065**	**(31,393)**	**(68,319)**	**-**	**9,353**
Hedging derivatives. Cash flow hedges (effective portion)	(30,837)	-	-	-	(30,837)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		108,509 (a)	(68,319) (b)	-	40,190
Available-for-sale financial assets	139,902	(139,902) (a)	-	-	
Debt instruments	*108,509*	*(108,509)*	-	-	
Equity instruments	*31,393*	*(31,393)*	-	-	
EQUITY	**1,728,428**	**-**	**(74,095)**	**(7,157)**	**1,647,176**
TOTAL LIABILITIES AND EQUITY	**22,435,789**	**-**	**(74,095)**	**(34,236)**	**22,327,458**

(*) Due to the entry into force of the IFRS Circular 9.

a) The amounts classified under "Items that can be reclassified to profit or loss - Available-for-sale financial assets" as at 31 December 2017 are reclassified to "Items that can be reclassified to profit or loss - Changes in the fair value of debt instruments measured at fair value through other comprehensive income", as a result of the entry into force of IFRS 9, except for those related to equity instruments, as they are not recyclable to profit or loss and are therefore reclassified to "Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income".

b) Impact of the valuation at amortised cost of debt instruments recognised under the heading "Available-for-sale financial assets" as at 31 December 2017 and reclassified to "Financial assets at amortised cost".

c) Impact of the reclassification of the unrealised capital gains of investment funds and venture capital funds (assets that do not comply with the SPPI test) from other comprehensive income to accumulated to reserves.

d) Corresponds to the impact of the change in the methodology for recording credit fees (-5,048 thousand euros), the increase in provisions for impairment (-7,157 thousand euros), the transfer of net capital gains on assets valued at fair value with changes in equity as at 31 December 2017 and reclassified to fair value with changes in profit or loss as at 1 January 2018 (+8,758 thousand euros).

(Expressed in thousands of euros)

The aggregate impacts on the accounting figures are presented below:

	Millions of euros
Net impact on balance sheet	**(81.2)**
Increase in value adjustments for impairment	(10.1)
Decrease in value adjustments due to impairment losses on foreclosed assets	0.2
Recording of the revenue not yet allocated to credit charges	(7.0)
Reclassifications of investment portfolios	(95.9)
Deferred taxes associated with the impacts	31.6
Impact on equity (decrease)	**(81.2)**
Impact on valuation adjustments (decrease)	(77.8)
Impact on reserves (decrease)	(3.4)

The reclassification of certain fixed-income sub-portfolios from fair value with changes in other comprehensive income to fair value through profit or loss and to amortised cost has resulted in a significant reduction in the valuation adjustments.

The fair value of the financial assets as at 31 December 2018 and 2017 reclassified from "Available-for-sale financial assets" to "Financial assets at amortised cost" (excluding certain references that were amortised in 2018) amounted to 3,154 million and 3,051 million euros, respectively. The impact on "Accumulated other comprehensive income" that the reclassified securities would have had would have amounted to a positive 74 million euros, net of tax effect.

The application of IFRS 9 had a negative impact on the CET1 Fully loaded ratio of the consolidated Group of around 93 basis points.

Lastly, the Laboral Kutxa Group has chosen not to apply the transitional adjustments for the mitigation of the impacts of IFRS 9 on capital, included in the EU regulation of the European Parliament and of the Council dated 12 December 2017 amending Regulation (EU) 575/2013, with regard to transitional provisions for mitigating the impact of the introduction of IFRS 9 on equity and for the treatment of large exposures related to certain public sector exposures denominated in the national currency of any Member State.

2.4 Entry into force of IFRS 16, leases

IFRS 16 (which enters into force for annual periods beginning on or after 1 January 2019, with an early adoption option, of which the Group has made use) establishes the principles for the recognition, measurement, presentation and breakdown of lease contracts, in order to ensure that both lessee and lessor provide material information that gives a true and fair view of these transactions.

The main change introduced by IFRS 16 is a standard accounting model for leases for lessees, requiring them to recognise the assets and liabilities of all leases with a duration of more than 12 months, unless the underlying asset is low value or intangible. The main change is the obligation for the lessee to recognise a right of use asset, which represents its right to use the underlying leased asset, and a lease liability, which represents its obligation in terms of present value to make lease payments. While the asset will be amortised over the life of the contract, the liability generates a financial cost.

The main type of contract identified by the Company, which will require estimating a right of use asset and a lease liability, are the leases of real estate (for offices) that are related to its operating activity.

With the results of the IFRS 16 implementation project being under review, the application of the aforementioned standard would entail the recognition of an asset and a liability for the same amount of approximately 34.5 million euros, with no equity impact.

2.5 Comparative information

In July 2014, the IASB published IFRS 9, which, together with subsequent amendments, was adopted by the Group in compliance with the standard on 1 January 2018. As permitted by the standard itself, the Group has chosen not to restate the comparative financial statements and the information relating to the year ended 31 December 2017 has not been restated in accordance with these criteria and is, therefore, not a comparison. Note 2.3, however, includes a reconciliation of the balances as at 31 December 2017 under IAS 39 and the corresponding balances as at 1 January 2018 under IFRS 9.

Also, in order to adapt the accounting system of Spanish credit institutions to the changes arising from the adoption of IFRS 15 and IFRS 9, on 6 December 2017, the Bank of Spain Circular 4/2017 of 27 November was published, repealing Circular 4/2004 of 22 December for financial years beginning on or after 1 January 2018. Thus, the adoption of this Circular has changed the breakdown and presentation of certain headings in the financial statements to comply with IFRS 9. The information for the year ended 31 December 2017 has not been restated under this Circular.

Additionally, the collateral received in connection with derivative operations, which in 2017 were included under "Financial liabilities at amortised cost - Deposits - Credit institutions" amounting to 143,430 thousand euros, has been reclassified in these consolidated annual accounts in order to make them comparable with the current year under the heading "Financial liabilities at amortised cost - Other financial liabilities".

The accounting information prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, for the year ended 31 December 2018 is presented in all cases, for comparative purposes, with reference to the figures for 2017. The information relating to 2017 is presented for comparison purposes only and does not form part of the Group's consolidated annual accounts for 2018.

2.6 Seasonality of transactions

In view of the Group's activities, its transactions are not cyclical or seasonal in nature. Therefore, no specific breakdowns are included in the notes to the consolidated annual accounts for 2018.

3. Changes and errors in accounting policies and estimates

a) Critical aspects of the valuation and estimation of uncertainty

The information contained in these consolidated annual accounts is the responsibility of the directors of the Parent Company. Estimates have been used, where appropriate, in these consolidated annual accounts, in the measurement of certain assets, liabilities, income, expenses and commitments, which have been made by the Senior Management of the Parent Company and Investees and ratified by the directors. These estimates relate to:

- Changes in the business models under which financial assets are managed (Note 13.e)
- The impairment losses on certain financial assets (Note 13.h).
- The useful lives of property, plant and equipment and intangible assets (Notes 13.q and 13.r).
- The fair value of certain financial assets not listed on regulated markets (Note 13.e).
- The cost and anticipated development of provisions and contingent liabilities (Note 13.u).
- Assumptions used to calculate insurance liabilities (Note 13.t).
- The actuarial assumptions used to calculate post-employment benefit liabilities and commitments (Note 13.o)
- The assessment of the ability to utilise the tax credits recognised (Note 13.p).
- The assessment of the impairment of goodwill in consolidation (Note13.ab).
- The estimated calculation of Corporate Income Tax (Note 41)

Since these estimates have been made based on the best information available at 31 December 2018 concerning the items involved, future events may require changing them in some respect in subsequent years. Such changes will, if appropriate, be made on a prospective basis and the effects of the estimate change will be recognised in the relevant consolidated income statement.

b) Changes in accounting criteria

Changes in accounting policies, either because they amend an accounting regulation that governs a certain transaction or event or because the Governing Board at the Parent Entity decides to change the accounting policy for justified reasons, are applied retroactively unless:

- It is impractical to determine the effect in each specific year deriving from a change in an accounting policy regarding comparative information from a preceding year, in which case the new accounting policy is applied at the start of the oldest year so that retroactive application becomes practicable. When it is impractical to determine the accumulated effect, at the start of the current year, deriving from the application of a new accounting policy to all preceding years the new accounting policy is applied on a prospective basis as from the oldest date on which it is practical to do so or,

- The accounting rule or regulation changes or establishes the application date.

During 2018 there have been changes in the accounting regulations applicable to the Group compared with those applied last year. The following is a list of the most significant changes:

i) Standards, amended standards and interpretations effective for annual periods beginning on or after 01 January 2018

- IFRS 4 (Amendment) "Application of IFRS 9 Financial Instruments" with IFRS 4 " Insurance Contracts" - Amendments to IFRS 4"

  The amendments to IFRS 4, which were published by the IASB in September 2016, introduce two optional approaches for insurance companies:

  • A temporary exemption until 2021 for IFRS 9 for entities that meet specific requirements (applied at the level of the reporting entity); and

  • The "overlapping approach": will provide all companies that issue insurance contracts with the option of recognizing in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 "Financial Instruments" is applied before the new standard for insurance contracts is published.

  IFRS 4 (including the changes that have now been published) will be superseded by the next new insurance contract standard. Consequently, both the temporary exemption and the "overlapping approach" are expected to cease to apply when the new insurance standard comes into force.

  In accordance with the amendments to IFRS 4, deferral of the application of IFRS 9 is permitted for insurers forming part of a financial conglomerate as defined in Article 2, section 14 of Directive 2002/87/EC, if the conditions set out in Article 2 of Regulation EU 2017/1988 are met.

  In this respect, the Group has not applied the aforementioned temporary exemption from IFRS 9 for the financial investments of the Group's insurance companies, as it is not considered to be a financial conglomerate.

- IFRS 9 "Financial instruments"

  This standard addresses the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guidance in IAS 39 on classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed valuation model and establishes three main categories of measurement for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the characteristics of the contractual cash flows of the financial asset. It requires investments in equity instruments to be measured at fair value through profit or loss with the irrevocable option at the outset to present the changes in fair value in non-recyclable other comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are reported in profit or loss. In relation to financial liabilities, there have been no changes regarding classification and valuation except for the recognition of changes in own credit risk in other comprehensive income for liabilities carried at fair value through profit or loss. Under IFRS 9 there is a new model for impairment losses, the expected credit loss model, which replaces the impairment loss model under IAS 39 and which will give rise to the recognition of losses earlier than was the case under IAS 39. IFRS 9 eases the requirements for hedges to be effective. Under IAS 39, a hedge must be highly efficient both prospectively and retrospectively. IFRS 9 replaces this approach by requiring an economic relation between the hedged item and the hedging instrument, and that the ratio covered is the same as that actually used by the entity in its risk management. Contemporary documentation is still necessary, but it is different from that which was being prepared under IAS 39. Finally, extensive information is required, including a reconciliation between the initial and final amounts of the provision for expected credit losses, assumptions and data, and a reconciliation at the transition between the categories of the original classification under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. IFRS 9 is applied retrospectively, although comparative figures are not required to be restated.

The impacts arising from the application of IFRS 9 are explained in Note 2.3.

- IFRS 15 "Revenue from contracts with customers"

  In May 2014, the IASB and the FASB jointly issued a converged standard regarding the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control over the good or service sold, i.e. when it has the capacity both to direct the use and to obtain benefits from the good or service. This standard includes new guidelines to determine whether to recognise revenue over time or at a particular time. IFRS 15 requires extensive information on both recognised revenue and revenue expected to be recognised in the future in relation to existing contracts. Quantitative and qualitative information is also required about the significant judgements made by management in determining recognised revenue, as well as any changes in these judgements.

  Subsequently, in April 2016, the IASB published amendments to this standard which, while not changing the fundamental principles, clarify some of the more complex aspects.

  IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

  The application of these standards has not had a significant effect on the Group's consolidated annual accounts.

- IFRS 15 (Amendment) "Clarification of IFRS 15, Revenue from contracts with customers"

  The IASB has amended IFRS 15 to:

  - Clarify the guidance for the identification of performance obligations, intellectual property licensing accounting and principal versus agent evaluation (presentation of net versus gross revenue).

  - Include new and modified illustrative examples for each of these areas of the guide.

  - Provide additional practical resources related to the transition to the new standard.

  These amendments do not change the fundamental principles of IFRS 15, but do clarify some of the more complex aspects of this standard.

  This amendment is effective for financial years beginning on or after 1 January 2018.

  The new amendments have not had a significant effect on the present Group's consolidated annual accounts.

- Annual Improvements to IFRS. Cycle 2014 - 2016

  The amendments affect IFRS 1 and IAS 28 and are effective for annual periods beginning on or after 1 January 2018. The main amendments relate to:

  - IFRS 1, "First-time Adoption of International Financial Reporting Standards": Elimination of short-term exemptions for entities adopting IFRS for the first time.

  - IAS 28, "Investments in associates and joint ventures": Valuation of an investment in an associate or joint venture at fair value.

  The application of these standards has not had a significant effect on the Group's consolidated annual accounts.

- IFRS 2 (Amendment) "Classification and valuation of share-based payment transactions"

  The amendment to IFRS 2, which was developed through the IFRS Interpretations Committee, clarifies how to account for certain types of transactions with share-based payments. In this regard, it provides requirements for the accounting of:

  - The effects of vesting conditions and non-vesting conditions on the valuation of cash-settled share-based payments;

  - Share-based payment transactions with a net settlement characteristic for tax withholding obligations; and

  - A change in the terms and conditions of a share-based payment that changes with the classification of the transaction from cash settled to settled through equity.

  The amendment is effective for annual periods beginning on or after 1 January 2018.

  The new amendments have not had a significant effect on the present Group's consolidated annual accounts.

- IAS 40 (Amendment) "Transfers of property investments"

  This amendment clarifies that to transfer to, or from, real estate investments there must be a change in use. In order to conclude whether there has been a change in use there must be an assessment of whether the property meets the definition of a real estate investment. This change must be supported by evidence. The IASB confirmed that a change in intention, in isolation, is not sufficient to support a transfer.

  The amendment is effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

  The new amendments have not had a significant effect on the present Group's consolidated annual accounts (see Note 31).

- IFRIC 22 "Foreign currency transactions and advance consideration"

  This IFRIC addresses how to determine the date of the transaction when the foreign currency transaction standard, IAS 21, is applied. The interpretation applies when an entity pays or receives a prepayment for contracts denominated in foreign currency.

  The date of the transaction determines the exchange rate to be used for the initial recognition of the corresponding asset, expense or income. The issue arises because

IAS 21 requires the use of the "transaction date" exchange rate, which is defined as the date the transaction first qualifies for recognition. The question is therefore whether the date of the transaction is the date on which the asset, expense or income is initially recognized, or the earliest date on which the anticipated consideration is paid or charged, resulting in a prepayment or deferred income.

The interpretation provides a guidance when a single payment / collection is made, as well as for situations in which there are multiple payments / collections. The aim of the guide is to reduce diversity in practice.

The interpretation is effective for annual periods beginning on or after 1 January 2018.

The application of this interpretation has not had a significant effect on the Group's consolidated annual accounts.

ii) Standards, amendments and interpretations which have not yet come into effect but which may be adopted early

At the date of signature of these consolidated annual accounts, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations detailed below, although the Group has not adopted them in advance:

- IFRS 16 "Leases"

In January 2016, the IASB published a new standard on leases, as a result of a joint project with the FASB, which supersedes IAS 17 "Leases".

The IASB and FASB have reached the same conclusions in many areas related to lease recognition, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed not to incorporate substantial changes into the accounting treatment by the lessor, maintaining requirements that are similar to those of the former standards.

However, there are still differences between the IASB and FASB regarding the recognition and disclosure of expenses related to leases in the income statement and in the cash flow statement

IFRS 16 will be effective for financial years starting on or after 1 January 2019. Its early application is permitted.

The possible impacts arising from the application of IFRS 16 are described in Note 2.4.

- IFRS 9 (Amendment) "Prepayment features with negative compensation"

The terms of instruments with prepayment features with negative compensation, where the lender might be obliged to accept a prepayment amount substantially lower than the unpaid principal and interest amounts, were incompatible with the notion of "reasonable additional compensation" for early termination of a contract in accordance with IFRS 9. As a consequence, such instruments would not have contractual cash flows that are only principal and interest payments, which would be recognised at fair value with changes in the profit and loss account. The amendment to IFRS 9 clarifies that a party may pay or receive reasonable compensation when a contract is terminated early, which could allow these instruments to be measured at amortised cost or at fair value with changes in other comprehensive income. The amendment will be effective for financial years starting on or after 1 January 2019, although early application is permitted.

This amendment is not expected to have a material effect on the Group's consolidated annual accounts.

- IFRIC 23, "Uncertainty over income tax treatments"

  The interpretation provides requirements in addition to those of IAS 12 "Corporate Income Tax", and specifies how to reflect the effects of uncertainty in the accounting of corporate income tax. This interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over its accounting treatment.

  The interpretation will be effective for financial years starting on or after 1 January 2019, although early application is permitted.

  This new standard is not expected to have a material effect on the Group's consolidated annual accounts.

iii) Standards, amendments and interpretations of existing standards that cannot be adopted early or have not been adopted by the European Union

As of the date of signature of these consolidated annual accounts, the IASB and IFRIC had published the standards, amendments and interpretations described below, which are pending adoption by the European Union.

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture"

  These amendments clarify the accounting treatment of sales and contributions of assets between an investor and his associates and joint ventures which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition for a business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to his associate or joint venture.

  Originally, these amendments to IFRS 10 and IAS 28 were prospective and applicable for years starting on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

  The amendments are not expected to have a material impact on the Group's consolidated annual accounts, if they are adopted by the European Union.

- IFRS 17 "Insurance contracts"

  In May 2017, the IASB completed its long-term project to develop an accounting standard for insurance contracts and published IFRS 17 'Insurance contracts'. IFRS 17 replaces IFRS 4 "Insurance Contracts", which currently permits a wide range of accounting practices. IFRS 17 will fundamentally change the accounting of all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies for the financial years beginning on or after 1 January 2021 and may be applied earlier if IFRS 15 "Revenue from customer contracts" and IFRS 9 "Financial instruments" are also applied. IFRS 17 is pending approval by the European Union.

The Group is analysing the impact that this standard may have on the consolidated annual accounts, should they be adopted by the European Union.

- IAS 28 (Amendment) "Long-term interests in associates and joint ventures"

  This amendment of limited scope clarifies that long-term interests in an associate or joint venture that, in substance, are part of the net investment in the associate or joint venture, but to which the equity method is not applied, are accounted for in accordance with the requirements of IFRS 9 "Financial instruments". The IASB has also published an example illustrating how the requirements of IAS 28 and IFRS 9 should be applied in respect of these long-term interests. The amendment will be effective for financial years starting on or after 1 January 2019, although early application is permitted.

  The amendment is not expected to have a material impact on the Group's consolidated annual accounts, if it is adopted by the European Union.

- Annual Improvements to IFRS. Cycle 2015 - 2017

  The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply for the financial years beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments relate to:

  - IFRS 3 "Business combinations": A previously held interest in a joint venture is re-measured when control of the business is obtained.

  - IFRS 11 "Joint arrangements": A previously held interest in a joint venture is not measured again when joint control of the business is obtained.

  - IAS 12 "Corporate income tax": All tax consequences of dividend payments are accounted for in the same way.

  - IAS 23 "Borrowing costs": Any specific loan originally intended to develop a qualifying asset is considered to be part of the generic loans when the asset is ready for use or sale.

  The Group is analysing the impact that the amendments may have on the Group's consolidated annual accounts, in the event that they are adopted by the European Union.

- IAS 19 (Amendment) "Plan amendment, curtailment or settlement"

  This amendment specifies how companies are to determine pension costs when changes occur in a defined benefit plan. The amendment is effective as of 1 January 2019, subject to its adoption by the European Union.

  The amendment is not expected to have a material impact on the Group's consolidated annual accounts, if it is adopted by the European Union.

- IFRS 3 (Amendment) "Definition of a business"

  These amendments will help to determine whether it is an acquisition of a business or of a group of assets. The amended definition emphasises that the product of a business is to provide goods and services to customers, whereas the previous definition focused on providing profitability in the form of dividends, lower costs or other economic benefits to investors and others. In addition to changing the wording of the definition, additional guidance has been provided. In order to be considered a business, an acquisition would have to include an input and a process that together contribute significantly to the ability to create products. The new guide provides a framework to assess when both elements are present (even for early stage companies that have not generated products). To be a business with no profit, will now require an organised workforce.

  These changes shall apply to business combinations that have an acquisition date on or after the beginning of the first annual reporting period commencing on or after 1 January 2020 and to acquisitions of assets that occur on or after the beginning of that reporting period. Early application is permitted.

  The amendment is not expected to have a material impact on the Group's consolidated annual accounts, if it is adopted by the European Union.

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"

  These amendments clarify the definition of "material" by introducing, in addition to omitted or inaccurate items that may influence users' decisions, the concept of "obscure" information. With these amendments, IFRS is more coherent, but it is not expected to have a significant impact on the preparation of the financial statements.

  They will apply to financial years starting on or after 1 January 2020, although their early application is permitted.

  The amendments are not expected to have a material impact on the Group's consolidated annual accounts, if they are adopted by the European Union.

c) Errors and changes in accounting estimates

Errors in accounting estimates

Errors in the preparation of prior-year consolidated financial statements are the result of omissions or inaccuracies resulting from the failure to employ or use reliable information that was available when the consolidated financial statements for those periods were prepared and the Parent Entity should have used when preparing those consolidated financial statements.

Errors relating to prior years are corrected retroactively in the first consolidated financial statements that are prepared after discovery, as if the error had never taken place:

- Re-expressing the amounts of the various financial consolidated financial statements affected by the error, including the notes to the consolidated financial statements that are published in the consolidated financial statements for the purposes of comparison, which relate to that year and prior years, if applicable.

- Re-expressing the consolidated opening balance for the oldest year for which information is presented if the error took place before the first consolidated financial statements that are presented for the purposes of comparison.

When it is impractical to determine the effects arising in each specific year from an error involving comparative information from a preceding year, the opening balances for the oldest years are re-expressed, where possible. In the event that it is not practical to determine the accumulated effect, at the start of the current year, of an error involving all prior years, the comparative information is re-expressed correcting the error on a prospective basis as from the earliest date possible.

Errors from prior years that affect consolidated equity are corrected in the year discovered using the relevant consolidated equity account. Under no circumstances are errors from prior years corrected through the consolidated income statement for the year in which they are discovered, unless they have no relative importance or it is impractical to determine the effect of the error based on the provisions of the preceding paragraph.

Changes in accounting estimates

A change in an accounting estimate is an adjustment to the carrying value of an asset or liability, or the regular consumption of assets, arising after an evaluation of the current situation faced by the item concerned, as well as future expected benefits and the obligations associated with the assets and liabilities concerned.

Changes in accounting estimates are the result of obtaining additional information or knowledge about new events and therefore are not error corrections. These changes are recorded on a prospective basis in the consolidated income statement for the year and in future years affected by the change.

In 2018 and 2017 there have been no significant error corrections relating to prior years, nor have there been any significant changes in accounting estimates that might affect those years or future years.

(Expressed in thousands of euros)

4. Application of the surplus for the year

Law 13/1989 on Credit Cooperatives, amended by Law 20/1990 on the Tax Regime applicable to Cooperatives, lays down that the amounts not appropriated to the Mandatory Reserve Fund and Education and Development Fund will be made available to the General Assembly, which may distribute it as follows:

- Distribution or reimbursement to members
- Appropriation to the Voluntary Reserve Fund

The Parent Entity's Bylaws stipulate that any surplus available after complying with obligations that might derive from the coverage of mandatory capital or the solvency ratio is to be used as follows:

- A minimum of 50% to the Mandatory Reserve Fund.
- A maximum of 25% to cover development and inter-cooperative needs. In particular, a minimum of 10% will be appropriated to the Education and Development Fund and a maximum of 15% will be appropriated to the Inter-Coop Company Fund.
- The remainder will be made available to the General Assembly, which can decide to distribute it as follows: reimbursement to members or appropriation to the voluntary reserve or analogous funds.

The amount earmarked for reimbursement to cooperative members will be distributed equally among all working members and other members.

According to the Parent Entity's bylaws, the reimbursement to cooperative members shall be distributed to the labour cooperative members in proportion of their payroll advances, and to the remaining members in proportion of their transactions with the Parent Entity.

The proposed distribution of the Parent Entity's surplus for 2018 which the governing body of the Parent Entity will submit for the approval of the General Assembly, and that approved for 2017, is as follows:

	2018	2017
Appropriation:		
- Gross interest, distributed against the appropriation of gross surplus for the year, paid on share capital contributions		
Share capital	33,565	29,170
- Mandatory Reserve Fund	47,423	42,956
- Education and Development Fund (*)	-	-
- Reimbursements to members	23,711	21,478
- Inter-Coop Company Fund	14,227	12,887
Profit/(loss) for the year	118,926	106,491

(*) The amount allocated to the Education and Development Fund corresponds to the minimum mandatory sum of 9,485 thousand euros in 2018 and 8,591 thousand euros in 2017 (Note 57).

5. Information per business segment

In accordance with IFRS 8, the financial compliance of the business segments is reported below on the basis of the information that the Parent Entity Management uses internally to evaluate the performance of these segments.

IFRS 8 requires that all operating segments with revenues that account for at least 10% of the aggregate revenues of all operating segments or with revenues that account for at least 10% of the greater of the following measures shall be reported: (i) the aggregate profit of all the operating segments that have not reported losses, (ii) the aggregate reported loss of all the operating segments that have reported losses. Or, if the assets are at least 10% of the aggregated assets of all the operating segments. Similarly, information shall also be provided on those operating segments, regardless of their size, that represent, in aggregate, at least 75% of the Group's ordinary revenues.

Business segment reporting is a basic tool for monitoring and managing the various activities of the Laboral Kutxa Group:

a. Segmentation criteria

- Business Segmentation

The business units described below have been established based on the different business areas established according to the structure and organisation of the Laboral Kutxa Group:

- Retail Banking
- Insurance Business

The Retail Banking business offers both investment and savings products. In investment, the main areas of activity are the marketing of mortgage products, consumer credit, working capital and corporate finance. As regards savings, the main products are deposits (on demand and term deposits), bank guarantees, means of payment services (credit and debit cards), investment funds, pension funds and EPSVs. This business is carried out mainly by Caja Laboral Popular Coop. de Crédito, through its network of branches, or by specific companies 100% dependent upon it, which are considered a direct extension of the activity carried out by the Parent Company. Strategic, management and operational decision-making is focused on the Governing Board of Caja Laboral Popular Coop. de Crédito.

The "Insurance Business" includes the activity carried out by the Group through Seguros Lagun-Aro Vida, S.A. and Seguros Lagun-Aro, S.A. The Group is engaged in life insurance business, marketing life insurance, life savings policies and unit-linked policies. In addition, it is active in non-life insurance, mainly in motor insurance, civil liability and in areas of multi-risk, mainly household insurance. Strategic, management and operational decision-making is focused on the Boards of Directors of both companies.

(Expressed in thousands of euros)

However, as indicated above, the decisions of the Group's various businesses are taken in the context of control that comes with belonging to the Laboral Kutxa Group.

- Geographical segmentation

The Group operates through a network of 309 branch offices as at 31 December 2018, with 187 located in the Autonomous Community of the Basque Country, 40 in Navarra and 82 in the rest of Spain (324 branches as at 31 December 2017, 194 in the Autonomous Community of the Basque Country, 41 in Navarra and 89 in the rest of Spain).

The geographical distribution of the Group's financial assets, loans and receivables is detailed in Note 21 of these consolidated annual accounts. Almost all of the Group's revenues are generated in Spain.

Therefore, as regards the criteria for segmentation by geographical area, there are no differences in the Group's area of activity (Autonomous Community of the Basque Country and Navarra and the rest of Spain) that justify segmented and differentiated information on the activity according to this criterion.

b. The basis and methodology used in the preparation of the segmented information

The information presented is based on the individual accounts of each of the companies that make up the Laboral Kutxa Group, with the eliminations and adjustments relating to consolidation.

Each business unit is considered to be a separate business, so there are flows of income and expenses between businesses for the provision of distribution services for products, services or systems. Adjustments and eliminations mainly relate to the elimination of inter-company profit or loss between segments. The final impact on the group's profit and loss account is zero.

c. Segmentation by business

The main contributions to the consolidated balance sheet and consolidated profit and loss account, disregarding the effect of transactions with group entities, for 2018 and 2017 are shown below:

	2018		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated income statement:			
Contribution to gross margin	361,248	33,492	394,740
Administration costs	204,322	22,719	227,041
Profit/(loss) for the year	115,665	8,508	124,173
Consolidated balance sheet:			
Total assets	22,209,500	779,833	22,989,333

	2017		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated income statement:			
Contribution to gross margin	375,265	36,225	411,490
Administration costs	207,925	24,430	232,355
Profit/(loss) for the year	103,559	9,290	112,849
Consolidated balance sheet:			
Total assets	21,669,009	766,780	22,435,789

6. Minimum equity ratios

6.1 Minimum equity ratios

The Basel Committee on Banking Supervision leads the harmonisation of international financial regulation. This Committee introduced the first regulation on credit institutions which set a minimum capital of 8% on their risks as a whole (Basel I, 1988). Later, in 2004, Basel II improved the sensitivity of the risk estimation mechanisms and contributed two new pillars: capital adequacy and risk assessment for each entity (Pillar II) and market discipline (Pillar III). In December 2010, the Committee adopted a new regulatory framework (Basel III) increasing capital requirements with better instruments, seeking consistency and uniform application by institutions and countries. The new capital agreement improves transparency and comparability of capital ratios. It also brings in new prudential tools in the areas of liquidity and leverage.

The European Union brought those agreements (Basel III) into EU law through a phase-in arrangement running to 1 January 2019 under Parliament and Council Directive 2013/36/EU (CRD-IV) of 26 June 2013 relating to access to the business of credit institutions and prudential supervision of credit institutions and investment firms, and Parliament and Council Regulation (EU) No 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms, applicable from 1 January 2014.

In order to adapt Spanish law to the regulatory changes in the international arena, Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions was enacted which continuing the transposition initiated by Royal Decree-Law 14/2013, of 29 November, and Bank of Spain Circular 2/2014, which lays down the regulatory options for requirements applicable during the transitional period. The minimum capital requirements established in current regulations (Pillar I) is calculated based on the Group's exposure to credit risk, foreign currency risk, trading portfolio risk, market risk and operational risk. In addition, the Group must comply with the risk concentration restrictions.

Royal Decree 84/2015 of 13 February which developed Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, completes the regulatory development of said Law and brings together in a single text all the organisational and disciplinary regulatory standards for credit institutions that had been issued prior to its enactment.

It should also be noted that during the 2015-2018 period new regulations were published that complement the CRR Regulation on matters related to equity, liquidity, Pillar I risks and Capital requirements.

Thus, it should be noted that, on 2 February 2016 the Bank of Spain Circular 2/2016 was issued, the main purpose of which was to complete the transfer of Directive 2013/36/EU into Spanish legalisation with respect to credit institutions. One of the options which EU Regulation 575/2013 attributes to the competent national authorities is also included, in addition to those already exercised in Circular 2/2014 by the Bank of Spain.

This Circular Letter also develops some of the aspects of the transfer of Directive 2011/89/EU of the European Parliament and Council, of 16 November 2011, which amended Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC with respect to additional supervision of financial institutions that form part of a financial conglomerate. The essential aspects of this Directive have already been incorporated into Spanish legislation through the amendments introduced by Law 10/2014 and Royal Decree 84/2015 into Law 5/2005, dated 22 April, on the supervision of financial conglomerates, and which amended other laws in the financial sector, and into Royal Decree 1332/2005 which developed it.

Lastly, in 2017 the Bank of Spain published Circular 3/2017, dated 24 October, amending Circular 2/2014, dated 31 January. The main purpose of this Circular is to adapt certain aspects of Circular 2/2014, in relation to the less substantial credit institutions, to the latest provisions adopted by the European Central Bank for the larger institutions (mainly the European Central Bank Guideline (EU) 2017/697 dated 4 April 2017 on the exercise by the competent national authorities of the options and powers offered by Union law with respect to the smaller institutions). Also the rules on transitional options that applied until 2017 were removed.

Under the requirements set out in Regulation CRR, credit institutions must comply with a total capital ratio of 8% at all times. However, it should be noted that the regulators may exercise their powers under the new regulatory framework and require institutions to maintain additional capital levels.

In this respect, the Parent Entity received a notification from the Bank of Spain concerning the decision on the minimal prudential requirements applicable to the Entity, whereby Laboral Kutxa must maintain a Common Equity Tier 1 (CET 1) ratio of 8.38%, measured on regulatory capital. This requirement includes the minimum required by Pillar 1 and the Pillar 2 requirement, including a capital conservation buffer. Similarly, based on the 8% requirement of Pillar 1, the minimum requirements of Total Capital is 11.88%.

The 8.38% CET1 requirement is composed of: the minimum level of CET1 required by Pillar 1 (4.5%), the Pillar 2 requirement (1.38%) and the capital conservation buffer (2.5%).

The strategic solvency management objectives set by the Group's management are as follows:

- To comply at all times with prevailing applicable minimum capital requirements at both the individual and consolidated levels.
- To manage the Group's capital as efficiently as possible so that the use of capital is considered a key investment decision-making variable, along with other return and risk parameters and considerations.

(Expressed in thousands of euros)

To deliver these objectives, the Group has a series of capital management policies and procedures, the main guidelines of which are:

- A dedicated oversight unit which reports to the Entity's risk management department and analyses ongoing compliance with the Bank of Spain's minimum capital requirements.

- When planning its strategic and commercial initiatives, the Group factors in, as a key decision-making input, their potential impact on the Group's eligible capital and the relationship between capital usage, returns and risk.

- Monitoring through the continuous supervision of the Group's solvency situation and its future planning, which includes both a central scenario that incorporates the most probable compliance hypotheses for the next three years, and various stress scenarios aimed at evaluating its financial capacity to overcome particularly adverse situations of various kinds.

The management that the Group carries out over its own resources conforms, as far as conceptual definitions are concerned, to the provisions of the solvency regulations described above:

	2018	2017
Common Equity Tier 1 (CET1)		
Capital	741,454	727,161
Qualifying results	76,381	70,792
Reserves	858,321	809,890
Valuation adjustments	(895)	109,065
(-) Other deductions	(61,829)	(59,769)
(-) CET1 adjustments due to prudential filters	18,513	(72,869)
	1,631,945	1,584,270
Additional CET 1		
Qualifying equity instruments	-	-
	-	-
Common Equity Tier 2		
Equity instruments and subordinated loans	-	-
Complementary coverage for credit risks using standard method	-	31,654
Valuation adjustments	-	-
Development and Education Fund	-	-
(-) Transitional adjustments	-	-
	-	31,654
Other items and deductions	-	-
Total qualifying equity	1,631,945	1,615,924
Total minimum equity	696,041	698,698
Risk weighted assets	8,700,515	8,733,720

(Expressed in thousands of euros)

On 31 December 2018 and 2017, the following is the most significant data on the Group's minimum capital:

	2018	2017
CET 1 ratio	18.76%	18.14%
Tier 1 capital ratio	18.76%	18.14%
Total capital ratio	18.76%	18.50%

The CET 1 minimum ratio is 4.5% and the Tier 1 minimum capital ratio is 6.0%.

At the date of preparing these consolidated annual accounts, the Group complies with the aforementioned regulations.

6.2 Minimum reserve ratios

In accordance with Monetary Circular 1/1998 dated 29 September, with effect from 1 January 1999, the 10-year reserve ratio was repealed and replaced by the minimum reserve ratio.

The Official Journal of the European Union dated 21 December 2011, published Regulation (EU) 1358/2011 of the European Central Bank dated 14 December, which amended Regulation (EC) 1745/2003 concerning the application of minimum reserves. The amendment consisted of incorporating the reduction, approved by the Governing Council of the European Central Bank on 8 December 2011, in the level of the minimum reserve ratio to be held by institutions from 2% to 1% starting from the reserve maintenance period that began on 18 January 2012.

As at 31 December 2018 and 2017, as well as throughout 2018 and 2017, the Parent Company complied with the minimum requirements for this ratio by the regulations applicable at any given time.

The amount of cash held by the Parent Entity in the Bank of Spain account for these purposes amounted to 1,395,458 thousand euros as at 31 December 2018 (1,682,657 thousand euros as at 31 December 2017) (Note 22), although the obligation to maintain the balance required by the applicable legislation in order to comply with the aforementioned minimum reserve ratio is calculated on the basis of the average of the end of day balances held on this account during the maintained period.

7. Remuneration of the Parent Entity's Directors and Senior Management

a) Statutory remuneration

The working partners have not received any fixed or variable remuneration by reason of their involvement in the Governing Body, irrespective of the compensation received for their "habitual" work in the Parent Entity. Similarly, the other members of the Governing Body have not received any remuneration due to their membership of the Body.

Caja Laboral Popular remunerates the work of the Chairman and pays the Chairman's remuneration through the established procedures by applying the remuneration criteria laid down by Caja Laboral Popular, Coop.de Crédito.

(Expressed in thousands of euros)

The amounts accruing to the Chairman of the Governing Board are as follows:

	Short-term compensation and subsistence	
	2018	2017
Chairman of the Governing Body	166	161
	166	161

b) Other Governing Body and Senior Management Remuneration

The payments accrued by the 4 working partners who were members of the Governing Board as at 31 December 2018 (4 working partners as at 31 December 2017) for the performance of their duties were as follows:

	Short-term compensation and subsistence	
	2018	2017
Members of the Governing Board	257	249
	257	249

Also, 7 people have been considered as Senior Management personnel of the Parent Entity, who are members of the Board of Directors as at 31 December 2018 (7 people as at 31 December 2017).

The following table sets out the remuneration accrued in favour of senior management as defined above.

	Short-term compensation and subsistence	
	2018	2017
Senior management	984	957
	984	957

In addition, the yield on capital (interest) and the remuneration received as a complementary distribution of the available surplus (cooperative returns) by the members of the Governing Board and Senior Management in 2018 and 2017 totalled 284,44 and 243,99 thousand euros, respectively.

In addition to the amounts accrued during the year to the members of the Entity's Governing Body and Senior Management indicated here above, set out below is a breakdown of income and expenses recorded in the consolidated income statement for 2018 and 2017 in relation to the members of the Parent Entity's Governing Body and Senior Management:

	Interest revenue		Interest expense		Fee and commission income	
	2018	2017	2018	2017	2018	2017
Directors and Senior Management	3	4	-	-	3	4

(Expressed in thousands of euros)

The members of the Parent Entitys Senior Management who act on behalf of the same on the Board of Directors of entities in which the Group has a shareholding have received no remuneration in respect of their positions as Directors of such Investees in 2018 and 2017.

c) Loans, credits, fixed-term deposits and guarantees and commitments with members of the Governing Body and Senior Management

Set out below is a breakdown of asset and liability balances in the consolidated balance sheet that relate to transactions carried out with members of the Governing Body and Senior Management of the Parent Entity as at 31 December 2018 and 2017:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities - Fixed- term deposits and Demand deposits		Guarantees and commitments	
	2018	2017	2018	2017	2018	2017	2018	2017
Directors and Senior Management	1,548	1,703	-	-	914	700	-	-

8. Agency contracts

In accordance with article 21 of Royal Decree 84/2015, dated 13 February, implementing Law 10/2014, dated 26 June, on the organisation, supervision and solvency of credit institutions, Appendix II contains a list of the natural or legal persons to whom the Parent Entity, as at 31 December 2018 and 2017, had granted powers to deal with customers on a regular basis on behalf of the Parent Entity, for the purpose of arranging or formally agreeing business transactions of the type normally engaged in by a credit institution.

The list of these agents has been duly reported to the Bank of Spain at 31 December 2018 and 2017.

9. Environmental impact

The Group's global operations are governed, inter alia, by Laws on environmental protection (Environmental laws) and on worker safety and health. The Group deems that it substantially complies with these Laws and that the procedures it uses are designed to encourage and ensure compliance with said Laws.

The Group considers that it has taken appropriate environmental protection and improvement measures and for minimising, whenever applicable, the environmental impact, and complies with the rules in force in this regard. In this respect, in 2001 the Parent Entity obtained the Environmental Management Certification under ISO 14001 which is currently in effect. During 2018 and 2017, the Group did not deem it necessary to record any provision for risks and charges of an environmental nature as, in the opinion of the Governing Body of the Parent Entity, there are no contingencies under this heading that are likely to have a significant effect on these annual accounts.

10. Deposit Guarantee Fund

10.1 Single Resolution Fund

Directive 2014/59/EU, dated 15 May, was incorporated into Spanish legislation under Law 11/2015, dated 18 June, and the enabling regulations thereof under Royal Decree 1012/2015, dated 6 November. This law provides a new framework for the resolution of credit institutions and investment service companies, and is one of the laws that contribute to the creation of the Single Resolution Mechanism set up under EU Regulation 806/2014, dated 15 July, which establishes standards and procedures for credit institutions and investment firms within the framework of a Single Resolution Mechanism and a Single Resolution Fund at a European level.

In the context of the implementation of this regulation, on 1 January 2016, the Single Resolution Fund entered into force, which established itself as a financing instrument which the Single Resolution Board could use, which is the European authority that will make the decisions on resolution, in order to effectively undertake the resolution measures adopted. The Single Resolution Fund will receive contributions from credit institutions and investment services companies subject to the same.

The Single Resolution Mechanism is supported by the Single Resolution Fund, which will be gradually provided by bank contributions during a transitional period that will last until 31 December 2024, until reaching a size equivalent to 1% of the guaranteed deposits.

The calculation of each entity's contribution to the Single Resolution Fund, regulated by Regulation (EU) 2015/63, is based on the proportion that each represents with respect to aggregate total liabilities of the entities adhered to the Fund, after shareholder's funds have been deducted and the guaranteed amount of the deposits are deducted. The latter, is then adjusted to the entity's risk profile. The obligation to contribute to the Single Resolution Fund is accrued on 1 January of each year.

In 2018, the expense incurred for the contribution to this body amounted to 2,852 thousand euros (3,140 thousand euros in 2017) (Note 57), which has been recorded in accordance with IFRIC 21 in a way similar to the expense recognised with respect to the Deposit Guarantee Fund.

10.2 Deposit Guarantee Fund

The Parent Entity is a member of the Deposit Guarantee Fund for Credit Institutions.

Royal Decree 2606/1996, dated 20 December, amended by Royal Decree 1012/2015, dated 6 November, establishes that the Management Committee of the Deposit Guarantee Fund shall determine the annual contributions of entities belonging to the Deposit Guarantee Fund for Credit Institutions. In the 2018 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2018 (in the 2017 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2017). The calculation of each entity's contribution was based on the amount of deposits guaranteed, and the risk profile of the entity taking into account indicators such as capital adequacy, the quality of the assets and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May (amended by Circular 1/2018). Furthermore, the contribution to the securities guarantee fund has been set at 0.2% of each 5% of the guaranteed amount of the securities and other financial instruments as at 31 December 2018.

The expense for ordinary contributions referred to in the above paragraph accrues in accordance with IFRIC 21, when the obligations exists to pay it, on 31 December each year.

On 30 July 2012 the Management Committee of the Deposit Guarantee Fund agreed to arrange an extraordinary contribution between member entities, payable by each entity through ten equal annual instalments. The extraordinary contribution to be made by the Parent Entity amounted 35,277 thousand euros (ten annual instalments of 3,522 thousand euros each). These contributions will be deducted from the ordinary annual contributions which, if appropriate, are paid by the Parent Entity and up to the amount of that ordinary contribution. As at 31 December 2018, the Parent Entity has recorded this commitment in the amount of 14,091 thousand euros (17,614 thousand euros as at 31 December 2017) under the heading "Other assets - Rest of other assets" on the assets side of the consolidated balance sheet (Note 34) and under "Financial liabilities measured at amortised cost - Other financial liabilities" (Note 36) on the liabilities side of the consolidated balance sheet.

Royal Decree-Law 6/2013 provided that, in order to strengthen the assets of the Deposit Guarantee Fund of Credit Institutions, the annual contribution envisaged under Article 3 of Royal Decree 2606/1996, dated 20 December, on Deposit Guarantee Funds of Credit Institutions, to be made by member entities to deposits at 31 December 2012, will be the object of an exceptional one-off increase of an additional 0.03%.

This increase is implemented in two tranches:

a) A first tranche equivalent to two fifths of the total, payable within 20 business days as from 31 December 2013. This tranche was reduced as a result of the deductions stipulated by the regulations and was recorded, for an amount of 7,693 thousand euros, as an expense in the consolidated income statement for 2013.

b) A second tranche equivalent to the remaining three fifths, amounting to 24,455 thousand euros, to be paid as from 1 January 2004 in accordance with the payment schedule set by the Management Committee within a maximum term of seven years. As mentioned in IFRIC 21, this expense was considered to accrue on the date that said Royal Decree-Law came into force (22 March 2013), since this contribution does not depend on the Parent Entity's future activity and should be recognised as a liability in full on said date, irrespective of the date of actual disbursement. The Entity paid 3,494 thousand euros on 30 September 2014. On 17 December 2014, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, in accordance with the capacities conferred by the above-mentioned legislation, agreed that the remainder of said second tranche should be disbursed through two payments of equal amounts on 30 June 2015 and on 30 June 2016. On 30 June 2015 the Parent Entity paid 10,480 thousand euros. As at 31 December 2015, 10,480 thousand euros was outstanding, which was paid on 30 June 2016, thus the total amount of the second tranche has been paid.

In 2018, the expense incurred for all contributions to this Fund totalled 24,786 thousand euros (24,745 thousand euros in 2017), which has been recognised under "Other operating expenses" in the accompanying consolidated profit and loss account (Note 57).

11. Audit fees

The cost of the contractual fees of PricewaterhouseCoopers Auditores, S.L. for external audit services in 2018 amounted to 494 thousand euros (510 thousand euros in 2017).

Other services provided by PricewaterhouseCoopers Auditores, S.L. and other firms associated with the PricewaterhouseCoopers trademark amounted to 114 thousand euros in 2018 (273 thousand euros in 2017). Of these other services, in 2018 the services provided to the Group by PricewaterhouseCoopers Auditores, S.L., other than the auditing of accounts, amounted to 114 thousand euros and pertained to the Independent Auditor's Report on Customer Asset Protection required by Circular 5/2009, of 25 November, of the Spanish National Securities Market Commission (CNMV) and advice in relation to the Parent Company's level of compliance with the General Data Protection Regulations.

During 2017, the other services provided to the Group by PricewaterhouseCoopers Auditores, S.L., other than the audit of the accounts, amounted to 266 thousand euros and corresponded to the Independent Auditor's Report on the Protection of Customer Assets required by the National Securities Market Commission's Circular 5/2009, dated 25 November, an Agreed Procedures Report on the level of compliance with the procedure designed by the Entity in relation to Royal Decree-Law 1/2017, dated 20 January, on urgent measures for the protection of consumers in relation to floor clauses, a Report on the degree of compliance of the Bank's manual of procedures in this area with the aforementioned Royal Decree-Law 1/2017, advice on the Internal capital adequacy assessment process (ICAAP) and the Internal liquidity adequacy assessment process (ILAAP) and a report on agreed procedures on certain information relating to the forms for targeted longer-term refinancing operations with specific objectives (TLTRO).

12. Subsequent events

As mentioned in note 2 to these consolidated annual accounts, on 1 January 2019 IFRS 16, Leases, entered into force. Note 2.4 details the main quantitative and qualitative impacts that the Parent Company considers that this standard will have on its accounting figures.

In the period between 31 December 2018 until the date on which these consolidated annual accounts were prepared, no additional events have taken place that significantly affect the Group.

13. Accounting principles and standards and valuation criteria applied

The most significant accounting principles and standards applied in the preparation of these consolidated annual accounts are described below:

a) Going- concern

When drawing up the consolidated annual accounts it has been assumed that the companies in the Group will continue to operate as going concerns in the foreseeable future. Therefore the application of accounting standards does not aim to determine consolidated assets and liabilities for the purposes of their overall or partial transfer or the amount that would result in the event of liquidation.

b) Accruals principle

These consolidated annual accounts, except with respect to the consolidated cash flow statements, have been prepared on the basis of the real flow of goods and services, irrespective of the date of payment or collection.

c) Other general principles

The consolidated annual accounts were prepared in accordance with the historical cost approach, although modified by the revaluation, if applicable, of land and buildings on 1 January 2004, as indicated in Note 13.q, and the fair value measurement of financial assets at fair value through other comprehensive income and other financial assets and liabilities (including derivatives).

The preparation of the consolidated annual accounts requires the use of certain accounting estimates. Similarly, Management is required to exercise judgement in the application of the Group's accounting policies. Estimates may affect the amount of assets and liabilities and the breakdown of contingent assets and liabilities at the date of the consolidated annual accounts and the amount of income and expenses over the period covered by the consolidated annual accounts. Although the estimates are based on Management's best understanding of the current and foreseeable circumstances, the final results could differ from such estimates.

d) Nature and operation of Financial derivatives

Financial derivatives are instruments that in addition to providing a loss or a gain may enable, under certain conditions, the offset of all or part of the credit and / or market risks associated with balances and transactions, using as underlying interest rates, certain indices, the prices of some securities, cross exchange rates or other similar references. The Group uses financial derivatives traded on organised markets or traded bilaterally with counter-parties on an over the counter (OTC) basis.

Financial derivatives are used to trade with customers who request them in order to manage the risks attaching to the Group's own positions (derivatives held for hedging) or in order to leverage changes in the relevant prices. Financial derivatives which may not be considered hedges are regarded as derivatives held for trading. The conditions that enable them to be accounted for as hedges are as follows:

i) The financial derivative should cover the risk of changes in the value of assets and liabilities due to fluctuations in the interest rate and / or exchange rate (fair value hedge), the risk of changes in estimated cash flows resulting from financial assets and liabilities, highly probable foreseeable commitments and transactions (cash flow hedge) or the net investment risk in a foreign operation (hedging of net investment in foreign operations).

ii) The financial derivative should efficiently eliminate any risk attached to the item or position hedged over the entire expected hedging period. Therefore it should have prospective efficiency, efficiency at the time the hedge is arranged under normal conditions and retrospective efficiency and there should be sufficient evidence that the efficiency of hedging will be maintained over the life of the item or position hedged.

In order to ensure the prospective and retrospective efficiency of hedging, the Entity conducts the relevant efficiency tests which evidence that the variation in the fair value of the hedge is highly comparable to the variation in the fair value of the hedged item. Therefore, in accordance with legislation in effect, it is assumed that the hedge is efficient when the accumulated variation in fair value of the hedging instrument varies from 80% to 125% of the accumulated variation in fair value of the hedged item. If a derivative complies at inception with the efficiency test and subsequently stops complying, it would thereafter be accounted for as a derivative held for trading and the hedging interruption rule would be applied.

iii) Proper documentary evidence must be kept to show that the Financial Derivative was contracted specifically as a hedge for certain specific balances or transactions, as well as of the way in which such efficient hedging was aimed to be achieved and measured, as long as the method used is consistent with the Group's management of its own risks.

Hedges may be applied to individual items or balances or financial asset and liability portfolios. In this latter case, the set of financial assets or liabilities to be hedged should share the same type of risk, this being understood to be the case when sensitivity to interest rate fluctuations of the individual items hedged is similar.

The Parent Entity arranges hedging through different types of derivatives: interest rate, equity instruments, currency derivatives etc., on the basis of the underlying risk of the item to be hedged. The hedging instruments which may therefore be used are: Interest Rate Swaps (IRS), Call Money Swaps (CMS), FRAs, interest rate futures, bond futures, equity index futures, stock futures, foreign currency forwards, interest rate options, equity index options, share options, Forex Options, interest rate structure options, equity structure options and Equity swaps.

Hedging with derivative instruments arranged by the Group which generally speaking are considered fair value hedges aim to totally or partly cover the risk of changes in the fair value of certain liabilities or deposits issued by the Parent Entity due to changes in interest rates or the fair value of certain equity instruments and debt securities in the portfolio of financial assets at fair value with changes in other comprehensive income.

Financial derivatives that are embedded in other financial instruments or other main contracts are recognised separately as derivatives when their risks and characteristics are not closely related to those of the main contracts and provided that the main contracts are not classified under "Financial Assets Held for Trading" and "Financial Assets and Liabilities at Fair Value Through Profit or Loss".

The Parent Company uses netting and collateral agreements signed with counter parties as a risk mitigation policy in this respect, thereby minimising the exposure of the counterparty to possible bankruptcy. As at 31 December 2018, deposits received and provided as collateral amounted to 113,585 thousand euros and 126,564 thousand euros, respectively, and are recorded under "Financial liabilities at amortised cost - Other financial liabilities" and "Financial assets at amortised cost - Loans and advances" (143,430 thousand euros and 259,689 thousand euros, respectively, in 2017) (Notes 26 and 36).

In section e) Financial assets of this Note a description is provided of the measurement rules used for Financial derivatives.

e) Financial assets

Financial assets are included for valuation purposes in one of the following portfolios:

i) Financial assets at amortized cost.

ii) Financial assets at fair value with changes in other comprehensive income.

iii) Financial assets mandatorily at fair value through profit or loss:

  a. Financial assets held for trading.

  b. Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss

iv) Financial assets designated at fair value through profit or loss.

v) Derivatives - hedge accounting.

Classification into the above categories is made on the basis of the following two elements:

- the Group's business model for the management of financial assets, and
- the characteristics of the contractual cash flows of the financial assets.

Business model

The business model is the way in which financial assets are managed in order to generate cash flows. The business model is determined by considering how financial asset groups are managed together to achieve a specific objective. The business model does not therefore depend on the group's intentions for an individual instrument but is determined for a set of instruments.

The business models used by the Group are:

- Maintaining financial assets to receive their contractual cash flows: under this model, financial assets are managed with the objective of receiving their specific contractual cash flows and not to obtain an overall return by conserving and selling assets. Notwithstanding the above, disposals prior to maturity of the assets are permitted under certain circumstances. Sales that may be compatible with a holding model to receive contractual cash flows include infrequent or insignificant sales, near-maturity sales, sales motivated by an increase in credit risk and sales made to manage concentration risk.

- Sale of financial assets.

- A combination of the two previous business models (maintenance of financial assets in order to receive their contractual cash flows and sale of financial assets): this business model involves more frequent and higher value asset sales, which are essential to the business model.

Characteristics of the contractual cash flows of financial assets

A financial asset must be classified at the outset into one of the following two categories:

- Those in which contractual conditions give rise, on specified dates, to cash flows consisting only of payments of principal and interest on the amount of principal outstanding.

- Other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at initial recognition, which may change over the life of the financial asset, for example, if there are repayments of principal. Similarly, interest is defined as the sum of the consideration for the time value of the money, for financing and structural costs, and for the credit risk associated with the amount of principal outstanding during a specific period, plus a profit margin.

Classification of portfolios for valuation purposes

The Group classifies a financial asset for valuation purposes:

- In the portfolio for "Financial assets at amortised cost", when the following two conditions are met:

  a. it is managed using a business model aimed at maintaining financial assets in order to receive contractual cash flows, and

  b. the contractual conditions give rise to cash flows on specified dates, which are only payments of principal and interest on the outstanding principal amount (SPPI test).

- In the portfolio for "Financial assets at fair value with changes in other comprehensive income", when the following two conditions are met:

  a. it is managed using a business model which aims to combine the receipt of contractual cash flows from financial assets and the sale, and

  b. the contractual conditions give rise to cash flows on specified dates that are only payments of principal and interest on the outstanding principal amount (SPPI test).

- In the "Financial assets at fair value through profit or loss" portfolio: provided that, due to the Company's business model for its management or due to the characteristics of its contractual cash flows, it is not appropriate to classify it in any of the previous portfolios.

- The "Financial assets at fair value through profit or loss" portfolio includes all those instruments for which one of the following characteristics is met:

  a. they originate or are acquired with the aim of being realised in the short term.

  b. they are part of a group of jointly identified and managed financial instruments for which there is evidence of recent actions to obtain short-term gains.

  c. they are derivative instruments that do not meet the definition of a financial guarantee contract and have not been designated as accounting hedging instruments.

Investments in equity instruments are an exception to the general valuation criteria described above. In general, the Group exercises the option of initial and irrevocable recognition by including in the portfolio of financial assets at fair value with changes in other comprehensive income, investments in equity instruments that are not classified as held for trading and which, if this option were not exercised, would be classified as financial assets at fair value through profit or loss.

With respect to the business model evaluation, it does not depend on the intentions for an individual instrument, but is determined for a set of instruments, taking into consideration the frequency, amount and timing of sales in previous years, the reasons for those sales and the expectations regarding future sales. Infrequent or insignificant sales, sales close to maturity of the asset and sales motivated by increases in the credit risk of financial assets or to manage concentration risk, among other reasons, may be compatible with the model of holding assets to receive contractual cash flows.

If a financial asset contains a contractual clause that may modify the timing or amount of contractual cash flows (such as early amortisation clauses or extension of the duration), the Group determines whether the cash flows that will be generated during the life of the instrument due to the exercise of that contractual clause are only principal and interest payments on the outstanding principal amount. In doing so, it considers the contractual cash flows that may arise before and after the change in the timetable or amount of the contractual cash flows.

Also, if a financial asset involves a periodic interest rate adjustment but the frequency of that adjustment does not coincide with the term of the reference interest rate (for example, the interest rate is adjusted every three months to the one-year rate), the Group assesses, at the time of initial recognition, this mismatch in the interest component to determine whether the contractual cash flows represent only payments of principal and interest on the outstanding principal amount.

Contractual conditions which, on initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional and highly unlikely events (such as the issuer's settlement) do not preclude classification into amortised cost or fair value portfolios with changes in other comprehensive income.

vi) Derivatives - hedge accounting that includes the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

vii) Fair value changes of the hedged items in portfolio hedge of interest rate risk which relates to the balancing entry of the amounts charged to the consolidated income statement resulting from the measurement of the financial instrument portfolios which are efficiently covered with respect to the interest rate risk through fair value hedging derivatives.

viii) Investments in joint ventures and associates which include equity instruments in associates, joint ventures and jointly-controlled entities.

Multi-group companies are Investees controlled jointly by the Group and by one or more other companies not related to the Group or the joint ventures. Joint ventures are contractual arrangements under which two or more companies or participants carry out operations or hold assets in such a way that any strategic financial or operational decision affecting them requires the unanimous consent of all the participants, without such operations or assets being integrated into financial structures other than those of the participants.

Associated Companies are those Investees in which the Group has a significant influence. This significant influence is evidenced, in general, although not exclusively, by the holding, directly or indirectly through another or other Investees, of 20% or more of the voting rights of the Investee.

ix) Assets under insurance or reinsurance contracts that correspond to the rights to be reimbursed by the insurance companies of part or all of the disbursement required in order to cancel a defined-benefit obligation when the insurance policies fail to meet the conditions to qualify as a Plan asset.

x) Non-current assets and disposal groups classified as held for sale relating to the carrying value of individual items, included in a disposal group or which form part of a business unit which is sought to sell (discontinued operations), the sale of which is likely to be effected under the current conditions of such assets within one year of the date to which these annual accounts refer. Therefore, the carrying value of these financial items will presumably be recovered through the price obtained upon disposal. There are other non-current non-financial assets for sale, the accounting treatment of which is described in Note 13.v).

Recognition and measurement

On initial recognition, all financial instruments are recognised at fair value. They are subsequently measured at the accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except for financial assets at amortised cost and investments in joint ventures and associates and financial derivatives that have these equity instruments as their underlying asset and are settled by the delivery thereof.

ii) The fair value of a financial asset is understood to be the amount at which it may be delivered between duly informed interested parties in an arm's length transaction. The best evidence of fair value is the quote on an active market that is an organised, transparent and deep market.

Where there is no market price for a specific financial asset, fair value is estimated on the basis of the value established on recent transactions involving analogous instruments and, alternatively, sufficiently verified valuation models. Similarly, the specific characteristics of the asset to be measured are taken into account and in particular, the different types of risks associated with the financial asset. Nonetheless, the actual limitations of the measurement models developed and the possible inaccuracies in the assumptions required by these models may mean that the fair value thus estimated of a financial asset does not exactly agree with the price at which it could be bought or sold at the measurement date.

iii) The fair value of financial derivatives quoted on an active market is the daily price and if for exceptional reasons, its price on a given date cannot be established, similar measurement methods may be used to those employed to measure OTC financial derivatives.

Derivatives without a market, or for which there is a low active market, are valued following the most consistent and appropriate economic methodologies, maximising the use of observable data and considering any factor that a market participant would value, such as: a) recent transactions in other instruments that are substantially the same, b) discounting of cash flows, c) market models for valuing options. The techniques applied are those preferentially used by market participants and have been shown to provide the most realistic estimate of the price of the instrument.

On initial recognition, all financial derivatives are recognised at fair value. At the time of initial recognition, the best evidence of the fair value of a financial instrument is normally the transaction price. The Laboral Kutxa Group does not carry out significant transactions with derivative instruments for which the fair value at initial recognition differs from the transaction price.

iv) Financial assets at amortised cost are measured at their amortised cost using the effective interest rate method. Amortised cost is understood to be the acquisition cost of a financial asset as adjusted for the repayment of the principal and the part allocated to the income statement through the effective interest rate method of the difference between the initial cost and repayment value at maturity and less any impairment losses directly recognised as a decrease in the amount of the asset or through a value adjustment account. For Loans and receivables that are hedged in fair-value hedging operations, any changes that occur in their fair value relating to the risk or the risks being hedged by said hedging operations are recorded.

The effective interest rate is the discount rate which brings the value of a financial instrument exactly into line with estimated cash flows over the instrument's expected life on the basis of the relevant contractual conditions such as early repayment options, not taking into account losses resulting from future credit risks. For fixed- interest financial instruments, the effective interest rate agrees with the contractual interest rate established at the time of acquisition plus, if appropriate, the fees which, by nature, may be likened to an interest rate. For variable interest rate financial instruments, the effective interest rate agrees with the rate of return in effect for all items through to the first review of the reference rate.

For financial instruments that are not recognised at fair value through profit or loss, the amount of fair value is adjusted by adding or deducting the transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, directly attributable transaction costs are recognised immediately in the consolidated profit and loss account.

Transaction costs are defined as expenses directly attributable to the acquisition or disposal of a financial asset, or to the issue or assumption of a financial liability, which would not have been incurred had the Company not carried out the transaction.

Trade receivables that do not have a significant financing component and trade receivables and short-term debt instruments that are initially measured at the transaction price or principal, respectively, continue to be measured at that amount, less the estimated impairment adjustment as described in Note 13 h).

The Company is currently undertaking an internal project to identify the direct and incremental transaction costs of asset operations. The project consists of including these identified transaction costs in the determination of the effective interest rate, reducing it for the financial assets, so that they would be accrued over the duration of the operation.

Changes in the carrying amount of financial assets are generally recognised with a balancing entry in the consolidated profit and loss account, with a distinction being made between those arising from the accrual of interest and similar items, which are recognised under "Interest income", and those arising from other causes, which are recognised at their net amount, under "Gains or (-) losses on financial assets and liabilities held for trading, net", "Gains or (-) losses on financial assets not held for trading mandatorily measured at fair value through profit or loss, net" and "Gains or (-) losses on assets and liabilities designated at fair value through profit or loss, net" in the consolidated profit and loss account.

However, changes in the carrying amounts of the instruments included under "Available-for-sale financial assets" are recognised temporarily under "Other accumulated comprehensive income" in consolidated net equity unless they arise from exchange differences on monetary financial assets. The amounts included under "Accumulated other comprehensive income" remain in Consolidated Equity until the asset from which they arose is derecognised in the consolidated balance sheet, at which time they are written off against the consolidated profit and loss account, and are recognised under "Gains or losses on derecognising financial assets and liabilities not measured at fair value through profit or loss, net" in the case of debt instruments and "other reserves" in the case of equity instruments.

In the case of Financial assets designated as hedges and hedged items, fair value differences are recognized as follows:

i) For fair value hedges, differences in hedges and hedged items, with respect to the type of risk being hedged, are recognised directly in the consolidated income statement.

ii) Measurement differences relating to the inefficient part of cash-flow hedges and net investment in foreign operation hedges are taken directly to the consolidated income statement.

iii) For cash flow hedges, measurement differences arising on the effective portion of the cover of the hedges are temporarily recorded under "Accumulated other comprehensive income" to consolidated equity.

iv) In the case of hedges of net investments in foreign businesses, the valuation differences arising on the effective portion of the hedging items are recognised temporarily under "Accumulated other comprehensive income" in consolidated equity.

In these latter two cases, measurement differences are not recognised as results until the gains or losses on the hedged item are recorded in the consolidated income statement or until maturity.

Reclassification between financial instrument portfolios

Only when the Group changes its business model for financial asset management would all the affected financial assets be reclassified in accordance with the following sections. This reclassification is carried out prospectively from the date of the reclassification, without there being any need to restate the gains, losses or interest previously recognised. In general, changes in the business model occur very infrequently, in the following cases:

i) If the Group reclassifies a debt instrument from the amortised cost portfolio to fair value with changes in profit or loss, the Group must estimate its fair value at the date of reclassification. Any gain or loss arising from the difference between the previous amortised cost and fair value is recognised in the consolidated profit and loss account.

ii) If the Group reclassifies a debt instrument from the fair value portfolio with changes in profit or loss to amortised cost, the fair value of the asset at the date of reclassification will change to its new gross book value.

iii) If the Group reclassifies a debt instrument from the amortised cost portfolio to fair value with changes in other comprehensive income, the Company must estimate its fair value at the date of reclassification. Any gain or loss arising from differences between the previous amortised cost and fair value is recognised in other comprehensive income. The effective interest rate and the estimate of the expected credit losses will not be adjusted as a result of the reclassification.

iv) If a debt instrument is reclassified from the fair value portfolio with changes in other comprehensive income to that of amortised cost, the financial asset will be reclassified at fair value at the reclassification date. The cumulative gain or loss at the date of reclassification to other comprehensive income accumulated in equity shall be offset against the carrying amount of the asset at the date of reclassification. Thus, the debt instrument is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the estimate of the expected credit losses will not be adjusted as a result of the reclassification.

v) If the Group reclassifies a debt instrument from the fair value portfolio with changes in profit or loss to that of fair value with changes in other comprehensive income, the financial asset will continue to be measured at fair value, without changing the recognition of previously recognised changes in value.

vi) If the Group reclassifies a debt instrument from the fair value portfolio with changes in other comprehensive income to fair value with changes in income, the financial asset will continue to be measured at fair value. The cumulative gain or loss previously recognised in "other comprehensive income" in equity shall be transferred to profit or loss for the period at the date of reclassification.

vii) When an investment in a subsidiary, joint venture or associate is no longer classified as such, the retained investment, if any, is measured at fair value at the date of reclassification, recognising any gain or loss that arises, by the difference between its carrying amount prior to reclassification and the fair value, in profit or loss or other comprehensive income, as appropriate, based on the subsequent measurement of the retained investment.

Except for the portfolio reclassifications explained in note 2.3) as a consequence of the entry into force of IFRS 9, during 2018 and 2017 there were no reclassifications between portfolios of financial instruments, nor sales of financial assets at amortised cost / held-to-maturity investments.

f) Financial liabilities

Classification

Financial liabilities are classified in the consolidated balance sheet as follows:

i) Financial liabilities held for trading which includes the financial liabilities that have been issued for the purpose of buying them back on a current-asset basis, are part of a portfolio of financial instruments identified and managed jointly for which action has recently been taken to make short-term gains or are derivatives not designated as hedges in the accounts or originate in the firm sale of financial assets acquired on a current-asset basis or received as a loan.

ii) Financial liabilities designated at fair value through profit or loss that relate to financial liabilities designated at initial recognition by the Group or when more relevant information is obtained upon recognition due to the fact that:

- They eliminate or significantly reduce incoherency in the recognition or measurement that would arise by measuring assets or liabilities, or through the recognition of gains or losses, using different criteria.

- A group of financial liabilities or financial assets and liabilities is managed and their yields are evaluated based on their fair value in accordance with a risk management strategy or documented investment strategy and information regarding the fair value of that group is disclosed to key members of Management.

iii) Financial liabilities measured at amortized cost that correspond to the financial liabilities that do not fit into any of the other categories on the consolidated balance sheet and relate to operations typically carried out by financial institutions to bring in funds, regardless of how they are instrumented and their terms.

iv) Derivatives - Hedge accounting that include the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

v) Fair value changes of the hedged items in portfolio hedge of interest rate risk which relates to the balancing entry of the amounts charged to the consolidated income statement resulting from the measurement of the financial instrument portfolios which are efficiently hedged against the interest rate risk through fair value hedging derivatives.

vi) Liabilities under insurance or reinsurance contracts that relate to the technical reserves recorded by the Group to cover claims deriving from the insurance contracts which are in force at the year end.

vii) Share capital repayable on demand, which includes the amount of the financial instruments issued by the Group that, although regarded as capital from a legal viewpoint, do not comply with the requirements to be classed as Equity. They are measured as financial liabilities designated at amortised cost unless the Group has designated them as financial liabilities designated at fair value through profit or loss if the conditions for doing so are met.

The Articles of Association of the Parent Company establish that the repayment of the shares of the shareholders will be conditioned both by the favourable agreement of the Board of Directors of the Parent Company and by the fact that this repayment will not result in insufficient coverage of the minimum share capital, equity or solvency ratio.

viii) Liabilities included in disposal groups classified as held for sale which relate to creditor balances arising in Non-current assets for sale.

Recognition and measurement

Financial liabilities are recorded at amortised cost, as is defined for financial assets in Note 13.e, except in the following cases:

i) Financial liabilities included under the headings "Financial liabilities held for trading" and "Financial liabilities designated at fair value through profit and loss" are carried at fair value, as defined for financial assets under Note 13.e. Financial liabilities hedged through fair value hedges are adjusted by recording those variations in fair value in relation to the risk hedged in the hedging transaction, under the account "Microhedge transactions" under the heading to which those financial liabilities pertain.

ii) Financial derivatives for which the underlying is an equity instrument whose fair value cannot be determined in a sufficiently objective manner and which are settled through their delivery are measured at cost.

Variations in the book value of financial liabilities are generally accounted for with the balancing entry in the consolidated profit and loss account, differentiating between those arising on the accrual of interest and similar charges, which are carried under "Interest expenses", and those which relate to other causes, which are carried at net value under "Profit or (-) loss on financial assets and liabilities held for trading, net" or "Profit or (-) loss on financial assets and liabilities designated at fair value through profit or loss, net" in the consolidated profit and loss account.

Valuation differences in financial liabilities designated as hedged items and accounting hedges are recorded taking the criteria indicated for Financial assets in Note 13.e into account.

g) Transfer and write-off of financial instruments from the consolidated balance sheet

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

i) If the risks and benefits are substantially transferred to third parties, such as unconditional sales, sales under a repurchase agreement at fair value at the date of repurchase, sales of financial assets with a call or put option written deeply out of money, asset securitisations in which the transferor does not retain subordinated financing or grant any type of credit enhancement to the new holders, etc., the transferred financial instrument is derecognised and any rights or obligations retained or created as a result of the transfer are recognised simultaneously.

ii) If the risks and benefits associated with the transferred financial instrument are substantially retained, such as on the sale of financial assets under a repurchase agreement at a fixed price or at the sale price plus interest, securities lending contracts in which the borrower is required to repay the same or similar assets, etc., the transferred financial instrument is not derecognised from the consolidated balance sheet and continues to be measured using the same criteria used prior to the transfer. Nonetheless, the associated financial liability is recognised for accounting purposes for an amount equal to the consideration received which is measured subsequently at amortised cost, together with the revenue from the financial asset transferred but not written off and the expenses relating to the new financial liability.

iii) If the risks and benefits linked to the financial instrument being transferred are neither substantially transferred nor substantially retained, as in the case of sales of financial assets with call and put options issued not deeply in or out of the money, securitisations of assets where the assignor assumes subordinate financing or any other kind of credit enhancement for a part of the asset transferred, etc., a distinction is made between:

- If the Group does not retain control of the financial instrument transferred, in which case it is written off the consolidated balance sheet and any right or obligation retained or created as a result of the transfer is recognised.

- If the Group retains control of the financial instrument transferred, in which case it continues to recognise it in the balance sheet for an amount equal to its exposure to any changes in value and a financial liability associated with the financial asset transferred is recognised in an amount equal to the compensation received. This liability will be subsequently measured at its amortized cost, unless it meets the requirements to be classified as a financial liability at fair value through changes in profit and loss. As this does not constitute a present obligation, when calculating the amount of this financial liability a deduction will be made in the amount of financial instruments (such as securitization bonds and loans) owned by the Entity, and which constitute financing for the Entity, to which financial assets have been transferred, to the extent that these instruments specifically finance the transferred assets. The net amount of the asset transferred and associated liability will be the amortised cost of the rights and obligations retained if the asset transferred is measured at amortised cost or the fair value of the rights and obligations retained, if the asset transferred is measured at fair value.

Financial assets are, therefore, only written off the consolidated balance sheet when the cash flows they generate have been extinguished or when the risks and benefits they carry implicit have been substantially transferred to third parties. Similarly, financial liabilities are only written off the consolidated balance sheet when the obligations that they generate have been extinguished or when they are purchased with a view to their cancellation or replacement.

In the consolidated financial statements for the 2018 and 2017 financial years, the Group fully consolidated the I.M. securitisation funds. Caja Laboral 1, F.T.A. and I.M. Caja Laboral 2, F.T.A., to which the Group transferred certain loans in 2006 and 2008, respectively (see Notes 26 and 36).

However, the Group has not recognised, unless they are to be recorded as income from a transaction or a subsequent event, the financial assets and liabilities for transactions arising before 1 January 2004, other than derivative instruments, written off from the consolidated balance sheet under the former applicable legislation.

h) Impairment of financial assets and other credit exposures

The Group applies impairment requirements to debt instruments that are measured at amortised cost and fair value with changes in other comprehensive income, as well as to other exposures that involve credit risk such as loan commitments granted, financial guarantees granted and other commitments granted.

The objective of the IFRS 9 requirements on impairment is to recognise expected credit losses from operations, evaluated on a collective or individual basis, considering all available reasonable and well-founded information, including prospective information.

Impairment losses on debt instruments for the period are recognised as an expense under "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net gains or losses due to changes" in the consolidated profit and loss account. Impairment losses on debt instruments at amortised cost are recognised against a provision allowance account that reduces the book value of the asset, while those at fair value with changes in other comprehensive income are recognised against other accumulated comprehensive income.

Hedges for impairment losses on exposures involving credit risk other than debt instruments are recognised as a provision under "Provisions - Commitments and guarantees given" on the liability side of the balance sheet. The provisions and reversals of these hedges are recognised with a charge to "Provisions or (-) reversal of provisions" in the consolidated profit and loss account.

The criteria for impairment by type of instrument and portfolio are summarised below:

Debt instruments measured at amortized cost and off-balance sheet exposures

In order to determine impairment losses, the Group monitors borrowers individually, at least who are significant borrowers, and collectively, for groups of financial assets that present similar credit risk characteristics that indicate of the capacity of the borrowers to pay their outstanding amounts. When a particular instrument cannot be included in any group of assets with similar risk characteristics, it will be analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the losses due to impairment.

The Group has policies, methods and procedures to estimate the losses that may arise as a result of its credit risks, both due to insolvency attributed to counter-parties and due to country risk. These policies, methods and procedures are applied when granting, modification, evaluation, monitoring and control of the operations of debt instruments and off-balance sheet exposures, as well as in the identification of their possible impairment and, where applicable, when calculating the necessary amounts to cover such estimated losses.

Accounting classification based on credit risk attributable to insolvency

The Group has established criteria to identify borrowers who present weaknesses or objective evidence of impairment and classify them according to their credit risk.

The following sections develop the classification principles and methodology used by the Group.

1) Definition of the classification categories:

Debt instruments not included in the portfolio of financial assets held for trading, as well as off-balance sheet exposures, are classified, based on the credit risk due to insolvency, in:

i) Standard exposures:

a. Operations which do not met the requirements to be classified into other categories (Stage 1).

b. Normal risk under special surveillance: This category includes all operations that, without meeting the criteria for classifying them individually as doubtful or failed risk, show significant increases in credit risk since their initial recognition (Stage 2).

ii) Doubtful risk (Stage 3):

a. Doubtful risk as a result of borrower arrears: This category includes the amount of debt instruments, whatever their holder and guarantee, which have an amount past due by more than 90 days of principal, interest or contractually agreed expenses, unless they should be classified as being written off. Also included in this category the guarantees given if the guaranteed party has fallen into arrears in the guaranteed transactions.

This category includes all the transactions of a holder when transactions with amounts with more than 90 days past due exceed 20% of the amounts outstanding. For the sole purpose of determining the percentage, it is considered in the numerator, the gross amount of doubtful transactions as a result of borrower arrears and, in the denominator, the gross carrying amount of all transactions granted to the borrower. If the percentage calculated in this way exceeds 20 %, both debt instruments and off-balance-sheet exposures involving credit risk of the holder shall be written off as doubtful due to late payment.

b. Doubtful risk for reasons other than default of the holder: This includes debt instruments, whether due or not, in which, without the circumstances being present to classify them as bad or doubtful due to the default of the holder, there is reasonable doubt as to their total repayment (principal and interest) under the terms agreed in the contract; as well as off-balance sheet exposures not classified as doubtful due to the holder's default, for which payment by the Group is probable and their recovery is doubtful.

This category would include, among others, transactions where borrowers are in situations that impair their creditworthiness.

iii) Write-off risk: This category includes transactions, past due or not, for which, after an individualized analysis, their recovery is considered to be remote due to a noticeable or irrecoverable deterioration in the solvency of the operation or the borrower. The classification in this category will entail the full write-off of gross carrying amount of the transaction.

2) Classification criteria for transactions:

The Group applies diverse criteria to classify borrowers and operations into different categories based on their credit risk. These categories include:

- Automatic criteria;
- Specific criteria for refinancing; and
- Criteria based on monitoring models under certain parameters.

The automatic factors and specific criteria for refinancing constitute a classification and cure process and are applied to the entire portfolio. Furthermore, and with the objective of the early identification of the weaknesses and impairment of the transactions, the Group establishes a monitoring model that allows their corresponding treatment to be assigned, depending on the different levels of default risk.

For significant borrowers, a predictive model of non-payment is established, consisting of a system of variables/alerts with which it aims to detect future situations of non-payment by customers, calibrate and quantify their seriousness and establish different levels of probability of risk of non-payment. An expert team of risk analysts analyses the borrowers with active alerts to draw conclusions about the existence of weaknesses or objective evidence of impairment and, in the case of evidence of impairment, whether that event or events causing the loss have an impact on the estimated future cash flows of the financial asset or its group.

Unless other reasons exist to classify them as doubtful risk, transactions classified as doubtful as a result of borrower arrears may be reclassified to standard exposures if, as a result of the collection of part of the overdue amounts, the causes that led to their classification disappear as doubtful risk and the borrower does not have amounts with more than 90 days past due in other transactions at the date of reclassification to the standard exposure category. In case of doubtful for reasons other than borrower arrears, they may be reclassified to standard exposure if the reasonable doubts about their full repayment under the contractual terms disappear the borrower does not have amounts with more than 90 days past due in other transactions at the date of reclassification to the standard exposure category.

Operations purchased or originated with credit impairment

The expected credit loss on the purchase or origin of these assets shall not be part of the hedge or gross book value at initial recognition. When an operation is purchased or results in credit impairment, the hedge shall be equal to the cumulative amount of changes in expected credit losses over the life of the operations after initial recognition and the interest income on these assets shall be calculated by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset.

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group guarantee a detailed monitoring of borrowers, and demonstrate the need to make provisions when there is evidence of impairment to their solvency. For this purpose, the Group constitutes the insolvency provisions for transactions in which the borrower's circumstances requires them, prior to formalising the restructuring/refinancing operations, which should be understood as follows:

- Refinancing operation: an operation which, whatever its owner or guarantees, is granted or used for economic or legal reasons related to current or foreseeable financial difficulties of the holder (or holders) to repay one or more operations granted, by the entity itself or by other entities of its group, to the holder (or holders) or to another company or companies in its economic group, or by which the said operations are totally or partially paid, in order to enable holders of repaid or refinanced operations the payment of debt (principal and interest) because they cannot, or are expected to be unable, to fulfil their payment in due time and proper form.

- Restructuring operation: the financial terms and conditions of an operation are amended for economic or legal reasons associated with current or foreseeable financial difficulties of the holder in order to facilitate payment of the debt (principal and interest) because the borrower can not, or is expected to be unable to comply with those terms and conditions on time and in due form, even if that change was envisaged in the contract. In any event, transactions are considered to be restructured when a debt reduction takes place, goods are received to reduce the debt or their terms and conditions are changed to extend their maturity, change the repayment table to reduce instatements in the short term or reduce their frequency, or establish or extend the principal repayment and/or interest grace period, except when it can be demonstrated that the terms and conditions were changed for reasons other than the borrowers' financial difficulties and are similar to those terms that would be applied by other entities in the market for similar risks.

If a transaction is classified within a specific risk category, the refinancing transaction does not entail any automatic improvement in its risk assessment. For refinancing operating, it is established its initial classification based on the characteristics of the operations, mainly that the borrower encounters financial difficulties, the fulfilment of certain clauses as well as long grace periods.

Subsequently to the initial classification, a reclassification into a lower risk category shall be considered if there is a significant evidence of improvement in the expected recovery of the operation, either because the borrower has been paying for a long period or the initial debt has been repaid in a significant percentage.

Hedging operations

The Group applies the criteria described below to calculate allowances and provisions for credit risk losses.

With regard to the transactions identified without negligible risk (fundamentally, transactions with central banks, general governments, public companies and financial entities, all whom are European Union countries or determined countries deemed to be risk-free), they are covered by a 0%, except in the case of operations classified as doubtful, for which an individual estimation of impairment is made.

1) Individual estimates of allowances and provisions:

The following items must be estimated individually:

i) Allowances and provisions for borrower transactions that are doubtful, and the Group considers to be significant. The Group has established a threshold of 3 million euros in terms of total risk exposure in order for borrowers to be considered significant.

ii) The allowances of doubtful transactions that do not belong to a homogeneous group of risk.

iii) Allowances and provisions for transactions identified as being without negligible risk, classified as doubtful, whether due to arrears or for other reasons.

To estimate these provisions and allowances, certain criteria are used by analysts who assign the corresponding level of provisions depending on the specific situation of the client and the operation, based on:

i) Cash flow generation: for debtors whom are estimated as being capable of generating future cash flows through their own business activity, permitting through the development of their activity and the economic-financial structure of the borrower, the partial or full re-payment of the debt owed.

ii) Recovery of collateral: debtors without the capacity to generate cash flows through their own business activities, with debt recovery being estimated through the foreclosure on collateral.

Likewise, the minimum coverage to be considered as an individualized estimate will be those that are applicable using the collective estimation criteria for doubtful risks, or in the case of operations of the promoter sector according to the criteria determined in Royal Decree-Law 2/2012 of 3 February.

2) Collective coverage estimates:

The following items are subject to collective estimation:

i) Exposures classified as normal risk (including those classified under special monitoring), except in cases where there are debtors, in which, without more than 90 days past due, the Group estimates, based on a detailed analysis of their economic-financial situation, that it is not considered doubtful for reasons other than borrower arrears, although requires a reinforcement in the volume of provisions to be recorded higher than the resulting estimate from applying a collective provision calculation method in function of the credit risk segment to which the borrower belongs.

For those debtors who do not exceed the threshold of significance and who, moreover, have not been classified as doubtful, the Group has established parameters that, once surpassed, assume their automatic classification as normal risk subject to special monitoring (as general criteria basis, more than 30 days and less than 90 days past due with arrears exceeding the amount of 300 euros).

ii) Exposures classed as doubtful, which are not evaluated through the individual estimation of coverage.

The impairment estimation process takes into account all credit exposures, both debt instruments and off-balance sheet exposures. In this respect, the Group has used the parameters and methodology established by the IFRS in force under an expected loss methodology, as well as the rest of the local regulations in force, and which, based on the statistical data and models that aggregate the average performance of the banking sector entities in Spain and that support their full compatibility with the framework formed by IFRS, are applied to define the classification and calculation of the impairment of the balance sheet and off-balance sheet exposures. This methodology takes into account, among other things, the segment of credit risk to which the transaction belongs, effective collateral and personal guarantees received, the economic-financial situation of the debtor and, if applicable, the age of overdue amounts.

In estimations of credit risk allowances, the amount to be recovered from real estate collaterals will be the result of adjusting its reference value, by the adjustments necessary to adequately consider the uncertainty in its estimate and its reflection in potential value declines up to its execution and sale, as well as execution costs, maintenance costs and selling costs.

The Group determines the amount to be recovered from effective collateral by applying over its reference value the discounts estimated by the Bank of Spain in its Circular 4/2017, based on its experience and information from the Spanish banking sector.

<u>Classification and coverage of credit risk due to country risk</u>

Country risk is considered to be the risk involved in transactions with holders resident in a given country due to circumstances other than the usual commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The Group classifies transactions conducted with third parties into different groups depending on the economic changes of countries, their political situation, the regulatory and institutional framework and the payment capacity and experience, and assigns percentages of insolvency provisions, pursuant to that set forth in current regulations.

Assets considered doubtful due to the materialisation of country risk are transactions in which the final borrowers are resident in countries experiencing long-term difficulties to meet their debt obligations, and the possibility of recovery is considered doubtful, as well as other off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The Group does not have provisions for this concept at the closure of 2018 and 2017, respectively.

Guarantees

Collateral and personal guarantees are defined as those which the Group is able to show as being valid as a means of mitigating credit risk. The analysis of the effectiveness of the collateral/guarantees takes into account, among others, the time required to execute them, the Group's capacity to do, as well as its previous experience in doing so.

Under no circumstances shall collateral/guarantees whose effectiveness depends substantially upon the credit quality of the debtor, or of any group to which the debtor may belong, be admissible.

In compliance with these conditions, collateral/guarantees can be defined as:

i) Real estate mortgages, provided they are the first mortgage:

   a. Complete buildings and parts thereof:

      - Housing.
      - Offices, commercial premises and multi-purpose industrial buildings.
      - Other buildings, such as single purpose industrial buildings and hotels.

   b. Urban land and regulated building land.

   c. Other real estate.

ii) Collateral in the form of pledged financial instruments:

   - Cash deposits
   - Debt securities and equity instruments issued by creditworthy issuers.

iii) Other types of collateral:

   - Personal property received as collateral.
   - Second and subsequent mortgages of properties.

iv) Personal guarantees, which imply the direct and joint liability of the guarantors to the client, and it is these persons or entities whose liquidity has been sufficiently proved for the purposes of guaranteeing the full amortisation of the transaction under the terms agreed.

The Group has collateral assessment criteria for assets located in Spain aligned with current regulations. In particular, the Group applies selection and contracting criteria of appraisers that are geared towards assuring the independence of the appraisers, and the quality of the appraisals. For this purpose, all of the appraisal companies are registered in the Bank of Spain Special Registry and the assessments are carried out according to the criteria established in Ministerial Order ECO/805/2003 on standards for the appraisal of real estate and certain rights for financial purposes.

The real estate collaterals for credit operations and properties are appraised when they are granted or registered, the latter through a purchase, foreclosure or in lieu of payment and when the asset has suffered a significant reduction in value. In addition, the updating criteria established in Bank of Spain Circular 4/2017 are applied, including the annual updating of doubtful and foreclosed risks as a general rule.

Debt securities measured at fair value

The amount of impairment losses incurred on debt instruments included under "Financial assets at fair value through other comprehensive income" is equal to the positive difference between their acquisition cost, net of any principal amortisation, and their fair value less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses recognised directly under "Accumulated other comprehensive income" to consolidated equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, in the consolidated income statement for the recovery period.

In the case of debt securities classified under "Financial assets at fair value with changes in other comprehensive income" and/or "Financial assets held for trading", the Parent Company considers that impairment has occurred in the event of non-payment of principal or interest for more than 90 days or in the event of losses exceeding 40% of their cost and credit rating.

For debt securities classified under the heading "Non-current assets and disposal groups classified as held for sale", any losses previously recognised in consolidated equity are considered realised and are recycled to the consolidated profit and loss account at the time of their classification.

Equity instruments

The amount of impairment losses incurred on equity instruments included under "Financial assets at fair value through other comprehensive income" is equal to the positive difference between their acquisition cost and their fair value less any impairment loss previously recognised in the consolidated profit and loss account.

When there is objective evidence that the decline in fair value is due to impairment, the unrealised losses recognised directly in consolidated equity under "Accumulated other comprehensive income" are recognised immediately in "Other consolidated reserves". If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, under "Accumulated other comprehensive income" to consolidated equity.

In the case of equity instruments classified under "Non-current assets and disposal groups of items classified as held for sale", the losses previously recognised in consolidated equity are considered to be realised and recognised in the consolidated profit and loss account on the date of classification.

In the case of equity investments in jointly controlled entities and associates, the Group estimates impairment losses by comparing the investments' recoverable and carrying amounts. These impairment losses are recognised in the consolidated profit and loss account in the year in which they arise and any subsequent reversals are similarly recognised in the consolidated profit and loss account in the year in which the impairment reversal occurs.

The Group considers, among others, the following indications to determine whether there is evidence of impairment.

- Significant financial difficulties.
- Disappearance of an active market for the instrument in question due to financial difficulties.
- Significant changes in the results compared to the data included in budgets, business plans or objectives.

- Significant changes in the market of the issuer's equity instruments or its products or possible products.
- Significant changes in the global economy or in the economy of the environment in which the issuer operates.
- Significant changes in the technological or legal environment in which the issuer operates.

The amount of impairment losses on investments in subsidiaries and associates included under "Investments in joint ventures and associates" is estimated by comparing their recoverable amount with their book value. The latter is the greater of fair value less selling costs and their value in use.

i) Valuation of accounts in foreign currencies

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 equivalent values in Euro of the total assets and liabilities denominated in foreign currency held by the Group at 31 December 2018 and 2017:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollars	54,943	26,054	59,841	27,762
Pounds sterling	5,280	1,505	4,389	1,152
Japanese yen	160	165	2,243	112
Swiss franc	760	103	679	126
Other	1,239	909	1,297	366
	62,382	28,736	68,449	29,518

The equivalent value in thousands of euros of the foreign currency assets and liabilities classified by type, held by the Group as at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash, cash balances at central banks and other on demand deposits	12,068	-	18,330	-
Financial assets held for trading	15	-	-	-
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	8,826	-		
Financial assets at fair value with changes in other comprehensive income	27,963	-	36,099 (a)	-
Financial assets at amortized cost	13,510	-	14,020 (b)	-
Financial liabilities held for trading	-	20	-	-
Financial liabilities measured at amortized cost	-	27,747	-	28,016
Commitments and guarantees given	-	969	-	1,502
	62,382	28,736	68,449	29,518

(a) Corresponds to balances classified under "Available-for-sale financial assets" (See Note 2.3.)
(b) Corresponds to balances classified under "Loans and receivables" (See Note 2.3.)

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

i) Monetary assets and liabilities are converted at the year end exchange rate, understood as the average spot exchange rate at the date to which the financial statements relate.

ii) Non-monetary items measured at cost are converted at the exchange rate on the date of acquisition.

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

iv) Income and expense are converted by applying the exchange rate 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/ amortisation is translated at the exchange rate applied to the relevant asset.

Exchange differences arising on translation of debtor and creditor balances denominated in foreign currency are generally recorded in the consolidated income statement. Nonetheless, in the case of exchange differences that arise on non-monetary items measured at fair value, for which the fair value adjustment is recorded under "Accumulated other comprehensive income" to consolidated Equity, the component of the exchange rate relating to the revaluation of the non-monetary element is broken down.

Balances in the annual accounts of investees where the functional currency is not the Euro are translated to Euro as follows:

i) Assets and liabilities are converted through the application of the year-end exchange rate.

ii) Income and expenses and cash flows are converted at the average exchange rates for the year.

iii) Equity is converted at historical exchange rates.

Exchange differences resulting from the translation of the Investees' annual accounts where the functional currency is not the Euro are recorded under "Accumulated other comprehensive income" to consolidated Equity.

None of the functional currencies of the Investees relates to economies deemed highly inflationary according to the criteria established in this respect. Therefore, at the 2018 and 2017 accounting close, there has been no need to adjust the financial statements of any Investee to correct them for the effects of inflation.

j) Recognition of income and expense

Income and expense relating to interest and similar items are generally carried on an accruals basis and under the effective interest rate method. Dividends received from other companies are taken to income when the right to receive them vests.

Fees paid or received for financial services, regardless of their contractual denomination, are classified in the following categories, which determine their recognition in the consolidated profit and loss account:

a) Credit fees: those that form an integral part of the yield or effective cost of a financing operation. These fees are received in advance, and may be:

   i) Fees received for the creation or acquisition of financing transactions that are not measured at fair value through profit or loss: they may include remuneration for activities such as assessing the borrower's financial position, evaluating and registering various guarantees, negotiating terms of transactions, preparing and processing documentation and closing the transaction. They are deferred and recognised in the consolidated profit and loss account over the life of the operation as an adjustment to the performance or effective cost of the operation. The fees accrued in 2018 and 2017 by product are: Financial fees accrued in 2018 totalled 6,561 thousand euros (5,030 thousand euros in 2017).

   ii) Fees agreed as compensation for the commitment to grant the financing when the commitment is not measured at fair value through profit or loss and it is probable that the Group will enter into a specific loan agreement. The recognition of the income from these fees is deferred and recognised in the consolidated profit and loss account over the expected life of the financing as an adjustment to the effective yield or cost of the transaction. If the commitment expires without the entity providing the loan, the fee is recognised as income at the time of expiry.

   iii) Fees paid on the issuance of financial liabilities measured at amortised cost. They are included together with the related direct costs incurred in the book value of the financial liability and are recognised in the consolidated profit and loss account as an adjustment to the effective cost of the transaction.

b) Non-credit fees: are those derived from the provision of financial services other than financing operations, and may be:

   i) Fees related to the performance of a service provided over time, such as fees for account administration and fees received in advance for the issue or renewal of credit cards: income is recorded in the consolidated profit and loss account over time, measuring progress towards full compliance with the performance obligation, in accordance with the criteria detailed in the following section. In the case of fees for the administration of investments on behalf of third parties, the progress towards compliance with the obligation is measured and the general criteria for the recognition of income and expenses are applied to the costs of obtaining and complying with the contract.

   ii) Related to the provision of a service that is executed at a specific time: these fees accrue when the customer obtains control over the service, such as in cases of subscription of securities, exchange of currency, advice or syndication of loans (in this case, when the Group does not retain any part of the transaction for itself or retains it under the same risk conditions as the rest of the participants). For credit operations in which the drawdown of funds is optional for the holder of the credit, the availability fee for the undrawn part shall be recorded as income in the consolidated profit and loss account at the time of its payment.

An exception to the foregoing criteria are financial instruments that are measured at fair value through profit or loss. For these instruments, the amount of the commission is recognised immediately in the consolidated profit and loss account.

The fees and commissions earned on products or services typical of the financial activity are shown separately from those on products and services that do not correspond to the typical activity, which are shown under "Other operating income" in the consolidated profit and loss account.

k) Offset of balances

Debtor and creditor balances arising on transactions which under contract or Legislation, provide for possible offset and the intention is to liquidate them at their net amount or realise the asset and pay the liability simultaneously, are presented in the consolidated balance sheet at the net amount.

l) Financial guarantees

A financial guarantee contract is an agreement that requires the issuer to make specific payments to reimburse the creditor for any loss incurred when a specific debtor fails to comply with repayment obligations in accordance with the original or amended conditions of a debt instrument, regardless of their legal form, which may be, among others, a guarantee, financial surety, insurance policy or credit derivative.

The entity issuing financial surety agreements recognizes them under "Financial liabilities measured at amortized cost - Other financial liabilities" at their fair value plus transaction costs that are directly attributable to the issue of the instrument, unless involving contracts issued by insurance companies.

Initially, unless evidence indicates otherwise, the fair value of a financial guarantee contract issued to a non-associated third party within an isolated transaction under conditions of mutual independence, is the premium received plus, if appropriate, the present value of cash flows to be received, applying an interest rate that is similar to that applied to financial assets granted by the Entity for similar terms and at similar risk levels. At the same time the present value of the future cash flows yet to be received is recognized as a credit on the asset side of the balance sheet, using the aforementioned interest rate.

After initial recognition the contracts are treated in accordance with the following criteria:

i) The value of commissions or premiums to be received for financial guarantees is updated by recording the differences in the consolidated income statement as financial income.

ii) The value of financial guarantee contracts that have not been classified as doubtful is the amount initially recognized under liabilities less the portion attributed to the consolidated income statement on a straight line basis over the expected life of the guarantee, or in accordance with other criteria, provided that they more adequately reflect the perception of the benefits and financial risks deriving from the guarantee

The classification of a financial guarantee contract as doubtful means that it will be reclassified to the heading "Provisions - Commitments and guarantees given", which is measured by applying the provisions of Note 13.h, above.

m) Leases

Lease contracts are presented on the basis of the economic substance of the transaction, irrespective of its legal form, and are classified from inception as finance or operating leases.

i) A lease is considered a finance lease when all the risks and benefits attaching to the ownership of the assets subject to the contract are substantially transferred.

Whenever the Group acts as a lessor of an asset, 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 the heading "Loans and receivables" on the consolidated balance sheet, in accordance with the nature of the lessee.

When the Group acts as the lessee, the cost of the leased assets is recorded in the consolidated balance sheet, on the basis of the nature of the asset covered by the contract, and at the same time, a liability is booked for the same amount, which will be the lower of the fair value of the leased asset or the sum of the present value of the amounts payable to the lessor, plus, if appropriate, the purchase option exercise price. These assets are depreciated using similar rates as those applied to property, plant and equipment for own use as a whole.

Financial income and expense arising on these contracts is credited and charged respectively, to accounts in the consolidated income statement such that the return is consistent over the contract term.

ii) Lease contracts which are not considered finance leases are classified as operating leases.

When the Group acts as the lessor, the acquisition cost of the leased assets is recorded under "Tangible assets - Property, plant and equipment". Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated profit and loss account on a straight-line basis.

When the Group acts as the lessee, lease expenses, including the incentives granted, if appropriate, by the lessor, are recorded on a straight-line basis in the consolidated income statement.

n) Equity managed

Equity managed by the Group which is owned by third parties is not included in the consolidated balance sheet. Fees generated by this activity are recorded under the heading "Fee and commission income" in the consolidated income statement (Note 49).

ñ) Investment funds and pension funds managed by the Group

The investment funds, pension funds and EPSV managed by the Group are not recorded on the consolidated balance sheet because their equity is owned by third parties (Note 69). Fees accrued in the year with respect to services rendered to these funds by the Group (capital management services, portfolio deposit, etc.) are recorded under Fee and commission income on the consolidated income statement (Note 49).

o) Staff costs and post-retirement remuneration

Remuneration paid to employees upon the termination of their employment is considered post-employment remuneration. Post-employment remuneration, including remuneration covered through internal or external pension funds, is classified as defined contribution plans or defined benefit plans on the basis of the conditions attaching to the relevant obligations, taking into account all the commitments taken on included in and excluded from the terms formally agreed with employees.

Post-employment remuneration is recognised as follows:

i) In the consolidated income statement: the cost of services provided by employees, both during the year and in prior years (where not recognised in prior years), net interest on the provision (assets), and the gain or loss arising on settlement.

ii) In the consolidated statement of changes in equity: the new valuations of the provision (asset) resulting from consolidated actuarial gains or losses, the return on plan assets which have not been included in net interest on the provision (asset), and variations in the present value of the asset resulting from changes in the present value of the flows available to the Group, which are not recorded in the net interest on the provision (asset). The amounts recognised in the consolidated statement of changes in equity will not be reclassified to the consolidated income statement in future years.

Accordingly, defined benefit plans are recognised in the consolidated income statement as follows:

a) Current service costs, as staff expenses.
b) Net interest on the provision, as interest expense.
c) Net interest on assets, as interest income.
d) Past service costs, as appropriations to provisions or (-) reversal of provisions.

PD II

As a result of the process of integration of Caja Laboral and Ipar Kutxa (see Note 1), in 2012 the Parent Company formalised a plan called "PD II", approved by the Governing Board of the extinct Caja Laboral and aimed at a specific group of Caja Laboral's working partners, with a period of validity from 1 January 2013 to 31 December 2018. This plan is voluntary and only applicable to the group to which it is addressed and once the willingness of the worker member to join it has been expressed in writing.

The main characteristics of this new scheme are as follows:

i) members born between 1953 and 1954 are entitled to receive a specific payment/financial benefit when they retire upon turning 60 or 61, in keeping with an option exercised at the time of signing the corresponding contract. Those born in 1955 can also avail of this option in which case they have to retire at the age of 60 (members born in 1955 do not have the option of retiring at 61).

ii) exclusively for members born between 1953 and 1957 that sign up between 1 and 4 January 2013, entitlement to certain special labour conditions and receipt of a specific payment/financial benefit that will accrue until the member retires.

The commitment accrued at years-end 2018 and 2017 is recognised in the item "Provisions - Pensions and other post-employment defined benefit obligations" on the consolidated balance sheet at that date (Note 38).

PD 58

Likewise, in 2016 the Parent Company formalised a plan called "PD 58", approved by the Governing Board and aimed at a specific group of Caja Laboral Popular Coop. de Crédito's working partners, with a period of validity from 1 January 2017 to 30 June 2020. This plan is voluntary and only applicable to the group to which it is addressed and once the willingness of the worker member to join it has been expressed in writing.

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1958 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The commitment, accrued at the 2018 and 2017 years-end, is recognised in the item "Provisions - Pensions and other post-employment defined benefit obligations" on the balance sheet at that date (Note 38).

New Network

In the 2016, 2017 and 2018 financial years, the Parent Company defined specific working and economic conditions for a certain group of members of Caja Laboral Popular Coop. de Crédito. Under this plan, certain members have subscribed to certain labour conditions and to receive a specific payment/financial benefit that will accrue until the date of termination of member's services.

The commitment, accrued at the 2018 and 2017 year-ends, is recognised in the item "Provisions - Pensions and other post-employment defined benefit obligations" on the balance sheet at that date (Note 38).

PD 59

Likewise, in 2017 the Parent Company formalised a plan called "PD 59", approved by the Governing Board and aimed at a specific group of Caja Laboral Popular Coop. de Crédito's working partners, with a period of validity from 01 January 2018 to 30 June 2021. As with the previous plans, this scheme is voluntary and targeted exclusively at certain individuals, subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1959 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The commitment, accrued at the 2018 and 2017 year-ends, is recognised in the item "Provisions - Pensions and other post-employment defined benefit obligations" on the balance sheet at that date (Note 38).

PD 60

Also, in 2018 the Parent Entity formalized a plan called "PD 60", approved by the Governing Board and aimed at a specific group of working partners, with a period of validity from 1 January 2019 to 30 June 2022. As with the previous plans, this new scheme is voluntary and targeted exclusively at certain individuals, subject to a written request from them to sign up for the programme.

The main characteristic of this new scheme is as follows:

i) it establishes the possibility for members born in 1960 to receive a determined consideration/financial assistance when the activity ceases when they reach the age of 60 or 61, in accordance with the option they exercised at the time of signing the relevant contract.

The commitment accrued at year-end 2018 is recognised in the item "Provisions - Pensions and other post-employment defined benefit obligations" on the consolidated balance sheet at that date (Note 38).

Severance payments

Under current Spanish labour legislation, the Group is required to make indemnity payments to employees terminated without just cause. There are no labour force reduction plans making it necessary to record a provision in this connection

p) Corporate income tax

Corporate income tax is considered to be an expense and is recorded under the heading "Tax expenses or income related to profit from continuing operations" in the consolidated income statement.

The cost of the "Tax expense or income from continuing operations" heading is determined by the tax payable in respect of the taxable profit for the year, after taking into account the changes during the year arising from temporary differences, tax credits and tax relief and tax loss carry-forwards. The tax base for the year may differ from the consolidated net surplus for the year since it excludes income and expense items which may be taxed or deducted in other years and items which are at no time taxed or deducted.

Deferred tax assets and liabilities relate to those taxes which are expected to be payable or recoverable in the differences between the carrying value of the assets and liabilities in the financial statements and the relevant tax bases. They are recorded using the liability method in the consolidated balance sheet and are quantified by applying to the temporary difference or credit involved the tax rate at which it is expected to be recovered or assessed.

A deferred tax asset, such as deferred tax, a credit in respect of deductions and rebates and a credit in respect of tax losses, is recognised provided that the Group is likely to obtain sufficient taxable income in the future against which to realise it. It is considered probable that the Group will obtain sufficient tax income when, inter alia:

i) There are deferred tax liabilities which may be cancelled in the same year as that in which the deferred tax asset may be realised or in a subsequent year in which the existing tax loss or tax loss resulting from the amount advanced may be offset.

ii) Tax losses have arisen due to the reasons identified and are unlikely to arise again.

Nonetheless, the deferred tax asset resulting from the recording of investments in Subsidiaries, Jointly-controlled entities or Associates is only recognised when its future realisation is probable and sufficient tax income is expected to be obtained in the future against which to apply it. Nor is a deferred tax asset recognised when an equity item is initially recorded which is not a business combination, which at the time of recognition has not affected the accounting or tax results.

Deferred tax liabilities are always recorded, except when goodwill is recognised or they arise on recording investments in Subsidiaries, Jointly-controlled entities or Associates if the Group is able to control the time of reversal of the temporary difference and, moreover, such temporary difference is unlikely to reverse in the foreseeable future. Nor is a deferred tax liability recognised when an equity item is initially recorded which is not a business combination, which at the time of recognition has not affected the accounting or tax results.

At each accounting close deferred tax assets and liabilities are reviewed in order to verify that they are still valid and make the relevant adjustments.

To conduct the above-mentioned analysis, the following variables are taken into consideration:

- Forecasts of the results of each Entity that, where applicable, gave rise to the possibility of recording deferred tax assets (since there is no tax consolidation group), based on the financial budgets approved by the Governing Bodies of each one, subsequently applying constant growth rates estimated by the Management of each Entity.

- Estimation of the reversal of temporary differences, based on their nature, and;

- The term or deadline established by current laws for the reversal of the various tax assets.

Income or expenses recognised directly in the consolidated statement equity that do not affect profits for tax purposes are recorded as temporary differences.

q) Tangible assets

Tangible assets include: property, plant and equipment held by the Group for current or future use which is expected to be used for over one year, property, plant and equipment transferred to customers under operating leases, tangible assets associated with community projects y investment properties, which include assets held in order to be leased out. The tangible assets are measured at acquisition cost less the relevant accumulated depreciation and, if appropriate, any impairment loss resulting from comparing the net value of each asset and the relevant recoverable amount. The acquisition cost of certain freely available property, plant and equipment for own use includes their fair value measurement at 1 January 2004 in accordance with Transitional Provision One of Circular 4/2004 (repealed by Circular 4/2017). That fair value at 1 January 2004 has been obtained based on independent expert valuations.

For foreclosure assets, the acquisition cost relates to the net amount of the financial assets delivered in exchange.

Depreciation is calculated systematically on a straight-line basis, by applying the estimated useful lives of the assets to cost less residual value. Land on which buildings and other constructions stand is understood to have an indefinite life and therefore no depreciation is charged. Annual depreciation charges in respect of property, plant and equity are recorded against the consolidated income statement and are calculated on the basis of the following average estimated useful lives of the different asset groups:

	Years of estimated useful life
Buildings and estates	33 - 50
Furniture	7 - 10
Installations	7 - 10
Machinery, electronic equipment and other	4 - 6

At each accounting close, the Group analyses whether there are any internal and external indications that the net value of property, plant and equipment exceeds the relevant recoverable amount. In this case, the Group reduces the carrying value of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying value and new remaining useful life if it is necessary to re-estimate it. Moreover, when there is an indication that the value of an asset has been recovered, the Group records the reversal of the impairment loss recorded in prior periods and adjusts future depreciation charges accordingly. The reversal of the impairment loss of an asset in no event may entail an increase in its carrying value in excess of that which would be obtained if such prior year impairment losses had not been recognised.

At least at the end of each year the Group reviews the estimated useful lives of property, plant and equipment for own use in order to detect significant changes in the same which, if any, are adjusted through the relevant adjustment to the amount recorded in future consolidated income statements in respect of the depreciation charge in accordance with the new estimated useful life.

Expenditure on the upkeep and maintenance of tangible assets for own use is recognised in the consolidated profit and loss account for the year in which it is incurred.

The investment property of tangible assets relates to the net values of the land, buildings and other structures held by the Group for exploitation on a lease basis or to obtain a gain on their sale as a result of future increases in their respective market prices.

The criteria applied by the Group to recognise the acquisition cost of the assets assigned under operating lease with respect to depreciation and the estimate of their respective useful lives and the recording of impairment loses, agree with the those described for tangible assets for own use.

r) Intangible assets

Intangible assets are non-monetary assets which are identifiable but have no physical appearance. Intangible assets are considered identifiable when they may be separated from other assets because they may be sold, leased or disposed of individually or they derive from a contract or other type of legal business. An intangible asset is recognised when, in addition to conforming to the above definition, the Group considers the flow of economic benefits from that asset probable and its cost may be reliably estimated.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less, if appropriate, accumulated amortisation and any impairment loss.

Goodwill

Goodwill represents the advance payment made by the Group for future financial benefits deriving from the assets of a company that has been acquired, which cannot be individually and separately identified and recognised and is only recognised when it has been acquired for consideration in a business combination.

Positive differences between the cost of the shareholdings in the capital of Subsidiaries, Jointly-controlled entities and Associates with respect to the relevant carrying values acquired, adjusted at the date of the first consolidation, are allocated as follows:

i) If they are assignable to specific equity items of the entities acquired, they are assigned by increasing the value of the assets or reducing the value of the liabilities, the market value of which is higher or lower, respectively, than the net carrying values in the predecessor balance sheets and whose accounting treatment is similar to that of the Group's same assets and liabilities, respectively.

ii) If they are assignable to specific intangible assets, they are allocated through their explicit recognition on the consolidated balance sheet provided that their fair value at the acquisition date may be determined reliably.

iii) Remaining differences which may not be allocated are recorded as goodwill which is assigned to one or more specific cash generating units.

Any negative differences between the cost of the Parent Entity's equity investments in jointly controlled entities and associates and the carrying amounts of the net assets acquired, as restated on the date of first-time consolidation, are accounted for as follows:

i) If the differences can be allocated to specific assets or liabilities of the acquires they are accounted for as an increase in the value of any liabilities or a reduction in the value of any assets whose fair values are higher or lower, respectively, than their carrying amounts and whose accounting treatment is similar to that of the Group's liabilities and assets, respectively.

ii) Any remaining amounts that cannot be allocated are recognised in the consolidated income statement in the year in which the equity investment is made.

Other intangible assets are classified as having a defined useful life and are depreciated over their remaining estimated useful life using similar criteria to those used to depreciate property, plant and equipment.

The Group recognises potential impairment losses on these assets with a balancing entry in the consolidated income statement. The criteria used to recognise impairment losses on intangible assets and any potential reversal of impairment losses recognised in prior years are similar to those used in respect of property, plant and equipment impairment.

s) Inventories

Inventories are non-financial assets held by the Group for sale in the ordinary course of business, are going through the production, construction or development process with this end in mind or are going to be consumed in the production process or when providing services. Inventories include, therefore, land and other properties that are held by the Group for sale as part of its property development business.

Inventories are stated at the lower of cost, which includes all the costs incurred in acquiring and transforming them and any other direct and indirect costs, which have been incurred in order to bring them to their present condition and location, and their net realisable value. Net realisable value is defined as the estimate sale price of the inventories in the ordinary course of business, less the estimated cost of completing their production and the costs involved in selling them.

The cost of inventories that cannot ordinarily be exchanged for others and of the assets and services produced and segregated for specific projects is calculated by identifying their itemised costs under the FIFO method.

The amount of any restatement of inventories, for damage, obsolete items and decrease in the sale value, to their net realisable value and any losses under any other headings is charged to expense in the consolidated income statement for the year the impairment or loss occurs. Any later recoveries in value are taken to the consolidated income statement for the year in which they occur.

The carrying value of inventories is written off the consolidated balance sheet and is charged to expense in the consolidated income statement in the year the income from their sale is recognised. The indicated expenses are included under the heading "Other operating costs" in the consolidated income statement.

t) Insurance transactions

Subsidiaries which are insurance companies credit to the consolidated income statement the amounts of the premiums written and charge to the consolidated income statement the cost of the claims that they have to settle at the date of final settlement. Similarly, the amounts credited to the consolidated income statement and not accrued at that date and the costs incurred not charged in the consolidated income statement are accrued at the closing each year.

The most significant technical reserves connected with direct insurance activity are as follows:

i) Unearned premium reserve which relates to the tariff premium collected in one year attributable to future years following the deduction of the loading for contingencies.

ii) Unexpired risk reserve which complements the Unearned premium reserve when the Unearned premium reserve is insufficient to reflect the measurement of the risks and expenses to be covered that relate to the unexpired coverage period at the year end.

iii) Technical reserve for claims which relates to the estimated measurement of outstanding obligations deriving from the claims occurred prior to the year end. This technical reserve includes claims pending settlement or payment and claims not yet reported. Outstanding obligations are calculated by deducting payments on account and taking into account the internal and external claims settlement expenses and, if appropriate, the additional provisions which may be needed to cover deviations in the measurement of claims involving long processing periods.

iv) Life insurance technical reserve:

- For life insurance where the coverage period is equal to one year or less, the unearned premium reserve relates to the tariff premium collected assignable to future years. When that technical reserve is not sufficient, an unexpired risk reserve is calculated which complements and covers the measurement of forecast risks and expenses in the period which has not expired at the year end date.

- For life insurance for which the coverage period is more than one year, the Mathematical reserve is calculated as the difference between the present actuarial value of future obligations and those of the policyholder or insured, taking as a basis for the calculation of the office premium accrued in the year which comprises the risk premium plus the administration expense loading according to the technical bases.

- For life insurance where the investment risk is assumed by the policy holder, the technical reserve is determined on the basis of the assets specifically assigned in order to determine the value of the rights.

v) Technical reserve for share in profit and returned premiums which relates to the benefits accrued to policyholders, insured or beneficiaries of the insurance and that for premiums that should be returned to policyholders or insured parties in accordance with the performance of the insured risk until they have been assigned individually to each of the former.

vi) Claims equalisation reserve which relates to the amount provided each year in respect of the specific loadings for contingencies for certain lines of insurance, up to the limit envisaged in the technical bases and which is cumulative in nature.

The reserves for accepted reinsurance are calculated in accordance with criteria which are similar to those applied in direct insurance and generally on the basis of the information provided by the ceding entities.

The technical provisions, both for direct insurance and for accepted reinsurance, are included in the "Liabilities covered by insurance or reinsurance contracts" heading in the consolidated balance sheet. However, technical provisions in respect of possible future claims that are not the result of insurance contracts in existence at the reporting date, such as the Stabilisation Reserve, are not recognised within "Liabilities covered by insurance or reinsurance contracts" on the consolidated balance sheet.

Amounts to which the Group is entitled under reinsurance contracts are recorded in "Assets covered by insurance or reinsurance contracts" on the consolidated balance sheet. These assets are determined on the basis of the same criteria as those used for direct insurance, in accordance with contracts in force. The Group verifies whether said assets are impaired, in which case it recognises the relevant loss directly in the consolidated income statement against said heading.

u) Provisions and contingent liabilities

The Group's present obligations resulting from past events are considered provisions when their nature is clearly defined at the date of the financial statements but the amount or time of settlement are not defined, and upon the maturity of which and in order to settle them the Group expects an outflow of resources which include economic benefits. Such obligations may arise due to the following:

i) A legal or contractual provision.

ii) An implicit or tacit obligation arising from a valid expectation created by the group vis-à-vis third parties with respect to the assumption of certain types of liabilities. Such expectations are created when the Group publicly accepts liabilities, and derive from past performance or business policies that are in the public domain.

iii) The virtually certain development of certain aspects of legislation, in particular, legislative bills which the group will be unable to circumvent.

The Group's possible obligations resulting from past events, the existence of which is conditional on the occurrence or otherwise of one or more future events beyond the Group's control are contingent liabilities. Contingent liabilities include the Group's present obligations the settlement of which is unlikely to give rise to a decrease in resources that bring in economic benefits or the amount of which, in extremely rare cases, cannot be sufficiently reliably quantified.

Provisions and contingent liabilities are classified as probable when the likelihood of occurrence is greater than that of not occurrence, possible when the likelihood of occurrence is less than that of not occurrence, and remote when their occurrence is extremely rare.

The Group includes in the consolidated annual accounts all significant provisions and contingent liabilities with respect to which it considers that it is more likely than not to have to fulfil the obligation. Contingent liabilities classified as possible are not recognised in the consolidated accounts. Rather, they are disclosed unless the likelihood of a decrease in resources that bring in financial gain occurring is deemed to be remote.

Provisions are quantified taking into account the best available information concerning the consequences of the event that originated them and are estimated at each accounting close. They are used to address the specific obligations for which they were recognised and may be reversed in full or in part when such obligations no longer exist or decrease.

At 31 December 2018 and 2017 the Group may have to address certain litigations, responsibilities and obligations deriving from the ordinary performance of its operations. The Group's legal advisers and the Parent Entity's 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 finish.

v) Non-current assets and liabilities included in disposal groups classified as held for sale

The heading "Non-current assets and disposal groups classified as held for sale" in the consolidated balance sheet includes assets of any nature that, while not forming part of the Entity's operating activities, include amounts that are expected to be realized or recovered in more than one year after the date classified under this heading.

When on an exceptional basis the sale is expected to take place in more than one year, the Group evaluates the selling costs in present terms and records the increase in value deriving from the passage of time under the heading "Profit or (-) Loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the consolidated profit and loss account.

Therefore the carrying value of these items, which may be financial and non-financial in nature, will presumably be recovered through the price obtained on their disposal, instead of on-going use.

Therefore, the fixed assets or other long-term assets received by the Group to pay off all or part of the payment obligations of its debtors with regard to the Group are deemed non-current assets for sale, unless the Group has decided to use these assets on an ongoing basis.

Furthermore, the "Liabilities included in disposal groups of items classified as held for sale" heading, includes the credit balances associated with the disposal groups or with the Group's discontinued operations.

The assets classified as "Non-current assets and disposal groups classified as held for sale" are generally measured at the lower of the carrying value at the time they are considered such, and fair value net of the estimated selling costs of such assets, except those of a financial nature that are measured in accordance with the provisions of Note 13.e.x). While they are classed as "Non-current assets and disposal groups classified as held for sale", tangible and intangible assets that are depreciable by nature are not depreciated.

In the case of foreclosed real estate assets or assets received in payment of debts, regardless of the legal form used, they are initially recognised at the lower of the carrying amount of the financial assets applied, i.e. their amortised cost, taking into account their estimated impairment, and their fair value at the time the asset is foreclosed or received less estimated costs to sell, which is to be understood as the market value granted in full individual valuations less costs to sell.

All the legal process expenses shall be recognised immediately in the Income statement for the period that are accrued. The registration expenses and taxes paid can be added to the recorded initial value when with this the valuation value less the estimated selling expenses referred to in the previous paragraph is not exceeded. All costs incurred between the date of adjudication and the date of disposal due to maintenance and protection of the asset, such as insurance or security services, will be recognized in the consolidated income statement for the period in which they are accrued.

After adjudication or receipt, the reference valuation is updated, which serves as the beginning for the estimation of the fair value. The Group for the purpose of determining fair value net of costs of sales takes into account both, valuations made by different valuation companies registered in the Special Registry of Bank of Spain and discounts on the reference value estimated by Bank of Spain, based on its experience and the information of Spanish banking sector. Also, when the property has a fair value less than or equal to 300,000 euros, updating is made by automated valuation models. In any case, when these properties reach a permanence of three years in balance sheet will be updated, in any case, by means of a full appraisal. In addition, the appraisal company, which makes the valuation update, will be different from who made the previous one.

In the event that the carrying value exceeds the fair value of the assets net of selling costs, the Group adjusts the carrying value of the assets by that excess amount, with a balancing entry under "Consolidated profit or (-) loss on non-current assets and disposal groups of items classified as held for sale ineligible as discontinued operations" in the consolidated profit and loss account. In the event that there are subsequent increases in the fair value of the assets, the Group reverses the previously recorded losses and increases the book value of the assets up to the limit of the amount just prior to their possible impairment, with a balancing entry under "Profit or (-) loss from non-current assets and disposal groups classified as held for sale ineligible as discontinued operations" in the consolidated profit and loss account.

Discontinued operations

Discontinued operations are components of the Group that have been disposed of or classified as held for sale and which:

- Represent a line of business or geographical area which is significant and separate from the rest.
- It's part of a single coordinated plan to dispose a line of business or geographical area which are significant and separate from the rest.
- Are subsidiaries acquired solely in order to be resold.

Profit or loss generated in the year by those components of the Group that have been considered as discontinued operations is recognised under "Profit or (-) loss after tax from discontinued operations" in the consolidated profit and loss account, whether the Group component has been derecognised or remains in the asset at year-end. If subsequent to being presented as discontinued operations, operations are classified as continuing, their income and expenses are presented both in the consolidated income statement for the year and in the comparative year published in the consolidated annual accounts, under the corresponding items according to their nature.

w) Consolidated cash flow statement

The consolidated cash flow statement uses certain terms with the following definitions:

i) Cash flows are 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.

ii) Operating activities which are the Group's typical activities and other activities which may not be classified as investing or financing and the interest paid for any financing received, even if relating to financial liabilities classified as financing activities.

iii) Investment activities relating to the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in subsidiaries, joint ventures and associates, non-current assets and disposal groups of items classified as "Financial assets at fair value through profit or loss" and liabilities included in those groups.

   Variations caused by the acquisition or disposal of a group of assets or liabilities that make up a business or line of activity are included in the item "Other business units" in the individual financial statements and in the item "Subsidiaries and other business units" in the consolidated financial statements, as appropriate.

iv) Financing activities are the activities that give rise to changes in the size and composition of consolidated equity and the liabilities that do not form part of operating activities.

The Group regards the balances included under "Cash, cash balances at central banks and other demand deposits" in the consolidated balance sheets as cash and equivalents.

x) Cooperative Training, Promotion and Education Fund (FEP)

The Promotion and Education Fund is recorded under "Other liabilities" in the consolidated balance sheet.

Appropriations to that fund which, in accordance with the Law on Cooperatives and the Parent Entity's by-laws are mandatory, are accounted for as an expense for the year although quantified on the basis of the surplus for the year. The additional amounts that may be appropriated on a discretionary basis will be recognised as an application of the surplus for the year.

Grants, donations and other assistance related to the Cooperative Training, Promotion and Education Fund in accordance with the law or funds deriving from the levying of fines by the cooperative to members which, under applicable legislation, are related to said fund, will be recognised as cooperative income and an appropriation will be made to said fund for the same amount.

The application of the Cooperative Training, Promotion and Education Fund for the purpose for which it was set up will lead to its write-off normally by credit to cash accounts. When its application is through activities typical of a credit institution, the amount of the Cooperative Training, Promotion and Education Fund will be reduced and income will be simultaneously recognised in the credit cooperative's income statement in accordance with normal market conditions for that type of activities.

Tangible fixed assets assigned to the Education and Promotion Fund are shown under "Tangible Assets" and are stated at acquisition cost, revalued in accordance with the rules described in section r) above, net of the related accumulated depreciation.

Property, plant and equipment is depreciated based on cost or restated cost, as appropriate, on a straight-line basis over the estimated useful lives of each asset group and using the rates described in paragraph q) above.

y) Consolidated statement of changes in equity and statement of recognized income and expenses

There statements presented in these financial statements shows all changes affecting equity during the year. The main characteristics of the information contained in both statements is set out below:

i) Consolidated statement of recognised income and expenditure

This statement presents the revenues and expenses generated by the Group as a result of its activities during the year, making a distinction between those recorded as results in the consolidated income statement for the year and other revenues and expenses recorded, in accordance with the provisions of current legislation, directly under consolidated equity.

Therefore, this statement presents:

a) Consolidated results for the year.

b) The net amount of income and expenditure recognised as "Other comprehensive income" that will not be reclassified to profit or loss.

c) The net amount of income and expenditure recognised as "Other comprehensive income" that can be reclassified to profit or loss.

d) "Total comprehensive income for the year", calculated as the sum of the previous three.

Changes in income and expenditure recognised as "Other comprehensive income" such as "Items that will not be reclassified to profit or loss" are broken down into:

a) Actuarial gains or losses in defined benefit pension plans: this heading includes the profit or loss for the period as a result of changes in the valuation of the obligations due to changes and differences in actuarial assumptions, certain returns on plan assets and changes in the asset limit.

b) Non-current assets and disposal groups of items held for sale: this shall include the profit or loss for the period that must be recorded in other comprehensive income as a result of the valuation of this type of asset, and which shall not subsequently be reclassified to profit or loss.

c) Share of other recognised income and expenditure from investments in joint ventures and associates: this item, which shall only appear in the consolidated statement of recognised income and expenditure, shall reflect profit or loss for the period from companies accounted for using the equity method that must be recognised in other comprehensive income and that are not subsequently reclassified to profit or loss.

d) Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income: shall include profit or loss for the period due to changes in the fair value of investments in equity instruments when the entity has irrevocably elected to recognise them in other comprehensive income.

e) Gains or losses resulting from hedge accounting for equity instruments measured at fair value with changes in other comprehensive income, net: this will represent the change over the period in the ineffectiveness of the cumulative hedge in fair value hedges where the hedged item is an equity instrument measured at fair value with changes in other comprehensive income. It will include the difference between changes in the variation in the fair value of the equity investment recorded in "changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)" and changes in the variation in the fair value of hedging derivatives recorded in "changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)".

f) Changes in the fair value of financial liabilities at fair value with changes in profit or loss attributable to changes in credit risk: this includes changes in the fair value for the period of financial liabilities designated at fair value with changes in profit or loss attributable to changes in own credit risk.

Changes in income and expenditure recognised as "Other comprehensive income" such as "Items that can be reclassified to profit or loss" are broken down into:

a) Hedges of net investments in foreign businesses (effective portion): this shall include the change during the period in the accumulated results as a consequence of changes in the exchange rate for the effective portion of hedges of foreign businesses that are held and discontinued.

b) Currency conversion: this shall include the differences arising in the period as a result of the conversion of items from the functional currency to the presentation currency.

c) Cash flow hedges (effective portion): this shall include the profit and loss for the period of the effective portion of the changes in the fair value of the hedging instruments in this type of hedging relationship.

d) Hedging instruments (non-designated items): this includes variations during the period of cumulative changes in the fair value of the following items when they have not been designated as a hedging component: time value of options, futures elements of futures contracts, base spread of exchange differences of financial instruments.

e) Debt instruments at fair value with changes in other comprehensive income: includes the period gains or losses on these instruments other than those due to impairment or exchange differences, which are recorded, respectively, under the items "impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss" and "exchange differences (profit or loss), net" in the profit and loss account.

f) Non-current assets and disposal groups of items held for sale: this shall include the profit or loss for the period that must be recorded in other comprehensive income as a result of the valuation of this type of asset, and that can subsequently be reclassified to profit or loss.

g) Share of other recognised income and expenditure from investments in joint ventures and associates. This item, which will only appear in the consolidated statement of recognised income and expenditure, shall reflect profit or loss for the period from companies valued by the equity method that must be recorded in other comprehensive income and that can subsequently be reclassified to profit or loss.

In addition, each of the items in the previous section shall be broken down into:

a) Profit or loss of value recognised in equity: this includes the amount of income, net of the expenses incurred during the year, recognised directly in equity. The amounts recognised in equity during the period shall be kept under this item, even if in the same period they are transferred to the profit and loss account or transferred to the initial carrying amount of the assets or liabilities or reclassified to another item in accordance with b), c) and d) below. When this breakdown relates to the item in point b) of the preceding section, it is referred to as "Foreign exchange gains or losses recognised in equity".

b) Transferred to profit or loss: this includes the amount of valuation profit or loss previously recognised in equity, albeit in the same period, that is recognised in profit or loss (sometimes the effect of this presentation is known as "income and expenditure recycling" and the amount transferred is referred to as a "reclassification adjustment").

c) Transferred to the initial book value of the hedged items: this breakdown, which is presented only for the item in c) above, shall include the amount of measurement profit or loss previously recognised in equity, albeit in the same period, that is recognised in the initial book value of assets and liabilities as a result of cash flow hedges.

d) Other reclassifications: shall include the amount of the transfers made in the period, between the different items, in accordance with the criteria set out in the rules of this heading.

The amounts of the items in this statement shall be recorded at their gross amount, including at the end, both those items that can be reclassified and those that cannot be reclassified to profit or loss, in a separate income tax item.

ii) Consolidated statement of total changes in equity

This statement presents all movements recorded under consolidated equity, including those that originate from changes in accounting policies and error corrections. This statement therefore shows a reconciliation of the carrying value at the start and end of the year of all items that form part of consolidated equity, grouping movements based on their nature under the following accounts:

a) Effects of changes in accounting policies and effects of error corrections: This includes changes in equity that arise as a result of the retroactive restatement of the balances in the financial statements originating from changes in accounting policies or error corrections.

b) Total comprehensive income for the year: This records the aggregate total of items recognized in the statement of consolidated recognized revenues and expenses indicated above.

c) Other changes in equity: This heading records all other items recorded under consolidated equity, such as capital increases or decreases, distribution of results, transactions involving treasury shares, payments involving equity instruments, transfers between consolidated equity accounts and any other increase or decrease affecting consolidated equity.

z) Business combinations

Business combinations are transactions as a result of which two or more entities or businesses join to form a single entity or group of companies.

When the business combination entails the creation of a new entity that issues shares to the owners of two or more combining entities, the acquirer shall be identified from one of the entities formerly in existence and the transaction shall be accounted for in the same manner as one in which one entity acquires another.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of another company is the fair value of the assets transferred, the liabilities incurred vis-à-vis the former owners of the acquire and the equity interests issued by the Entity. The consideration transferred includes the fair value of any asset or liability arising from an agreement covering contingent considerations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Entity recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquirer's identifiable net assets.

Costs related to the acquisition are recognized as expenses in the financial year in which they were incurred.

Any contingent consideration payable by the Entity is recognised at its acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit and loss or as a change in equity. Contingent consideration that is classified as part of consolidated equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially valued as the surplus between the total consideration transferred and fair value of the non-controlling interest in the net identifiable assets acquired and the liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

The date of the business combination marks the start of a one-year period called the 'measurement period' during which the acquirer can adjust the provisional amounts recognised once it has all the information necessary to complete the estimates made when preparing the first set of consolidated annual financial statements issued after the date of the business combination.

aa) Goodwill

A positive difference between the cost of a business combination and the acquired portion of the net fair value of the assets and contingent liabilities of the acquired entity is recognised on the balance sheet as goodwill. Goodwill represents a payment made by the Group in anticipation of the future economic benefits from assets of an acquired entity that are not capable of being individually or separately identified and recognised. Goodwill is recognised only if it has been purchased for valuable consideration through a business combination. Goodwill is not amortised, but at the end of each accounting period it is subjected to analysis for any possible impairment that would reduce its fair value to below its stated net cost and, if found to be impaired, is written down against the consolidated income statement.

In order to detect possible signs of goodwill impairment, measurements are made based mainly on the distributed profit discount method, taking into account the following parameters:

- Key business assumptions. The cash flow projections used in the measurement are based on these assumptions. For businesses with financial activities, variables are projects, such as the evolution of lending, non-performing loans, customer deposits and interest rates in a forecast macroeconomic scenario, and capital requirements.

- Estimated macroeconomic variables and other financial values.

- Term of the projections. The projection term/period is generally five years to arrive at a recurring level of profits and yields, taking into account the economic scenario existing at the measurement date.

- Discount rate. The present value of future dividends used to calculate value in use is calculated using as a discount rate the entity's cost of capital (Ke) from the viewpoint of a market participant. It is determined using the CAPM method, based on the formula: "Ke = Rf +β=company's systemic risk ratio, Rm = Expected market yield and α = Non-systemic risk premium".

- Growth rate used to extrapolate the cash flow projections beyond the period covered by the most recent forecasts, based on long-term estimates of the main macroeconomic figures and of the key business variables, while taking into account the financial market situation at all times, estimating a 1% growth rate to perpetuity.

Goodwill impairment losses are not subsequently reversed.

(Expressed in thousands of euros)

14. Customer ombudsman

This Department addresses queries, complaints and claims filed by customers through the pertinent channels.

The department has officially two months to settle the written queries, complaints or claims filed although the Entity has undertaken to address such matters with the utmost diligence, before the end of that period.

Concerning the activity of the Customer Care Service of the parent entity, Caja Laboral Gestión, S.G.I.I.C., S.A. and Caja Laboral Pensiones, S.A.G.F.P., 9,253 cases were brought in 2018 (15,748 in 2017), of which 6,186 were admitted (14,131 in 2017), which were responded to. 3,067 cases were not admitted (1,617 in 2017) for the reasons set out in the Customer Care Service Regulations as grounds for rejecting complaints or claims.

	2018	2017
No. files opened		
- In writing: brochure / letter	7,511	12,996
- Internet	1,258	1,475
- By telephone	4	2
- Public bodies: OMIC / Regional Governments	480	1,275
	9,253	**15,748**
No, case files processed	**6,186**	**14,131**
Nature of the Files		
- Complaints	7,587	11,986
- Claims	1,334	3,367
- Queries	6	12
- Suggestions	9	6
- Letters of congratulations / gratitude	-	1
- Sundry petitions	312	376
- Other	5	-
	9,253	**15,748**

	2018	2017
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	1,627	6,394
- Amounts relating to cases for which the decision favoured the Customer	44	129
. Indemnities paid by the Entity	44	129
	1,671	**6,523**

(Expressed in thousands of euros)

Noteworthy is the fact that the reasons for claims focused on the following:

	2018	2017
Economic terms	16%	9%
Commissions and expenses	71%	83%
Missing or inaccurate information	1%	1%
Centralised customer services	3%	1%
Information missing or incorrect	2%	1%
Coverage of needs	1%	1%
Aspects of customer relations	1%	1%
Other:	5%	3%
- Swift and efficient service at ATMs	*1%*	*1%*
- Miscellaneous	*4%*	*2%*
	100%	100%

With respect to the amounts claimed, the percentages are as follows:

	2018	2017
= < 10 euros	0.04%	0.01%
> 10 < = 60 euros	0.33%	0.09%
> 60 < = 100 euros	0.12%	0.04%
> 100 < = 250 euros	0.67%	0.13%
> 250 < = 1,000 euros	17.28%	8.48%
> 1,000 euros	81.56%	91.25%

With respect to the Customer Service activity of Seguros Lagun Aro Vida, S.A., 25 complaints and claims were received in 2018 (32 in 2017) and 27 cases were processed in 2018 (29 in 2017). 27). The main grounds for the claims and complaints were disagreements over compensation and redemptions. The results of the cases handled in respect of those classified as admissible in the course of 2018 and 2017 were as follows:

	2018	2017
In favour of the customer	15	11
In favour of the Entity	10	17
Other	2	1
	27	29

The total complaints and claims in favour of the customer represented a cost for the company of 79,461 euros in 2018 (15,802 euros in 2017). Complaints and claims have on average been addressed within 9 days (7 days in 2017).

(Expressed in thousands of euros)

With respect to the Customer Ombudsman Department of Seguros Lagun Aro Vida, S.A., during the year 696 claims and complaints were made (681 in 2017), of which 689 were processed during 2018 (691 in 2017). The main reasons for the complaints or claims were disagreements over compensation, delays in the provision of services and the price of insurance.

The results of the cases handled in respect of those classified as admissible in the course of 2018 and 2017 were as follows:

	2018	2017
In favour of the customer	316	269
In favour of the Entity	361	400
Other	12	22
	689	691

The total complaints and claims in favour of the customer represented a cost for the Group of 43,639 euros in 2017 (32,569 euros in 2017). The average response time in 2018 was 10 days (8 days in 2017).

Concerning the activity of the Customer Care Service of Caja Laboral Bancaseguros O.B.S.V., S.L.U., 16 complaints and claims were received during the year (31 in 2017), and 19 cases were processed during 2018 (30 in 2017). The main reasons for the complaints or claims were disagreements over compensation, delays in the provision of services and the price of insurance.

The results of the cases handled in respect of those classified as admissible in the course of 2018 and 2017 were as follows:

	2018	2017
In favour of the customer	3	1
In favour of the Entity	3	6
Other	13	23
	19	30

The total complaints and claims in favour of the customer represented a cost for the Group of 0 euros in 2018 (0 euros in 2017). The average response time in 2018 was 2 days (2 days in 2017).

15. Credit risk

Credit risk is the risk of loss due to failure by the counterparty to make payments due to the Laboral Kutxa Group, in part or in full, or outside the agreed terms. From a management perspective, Laboral Kutxa distinguishes between the credit risk arising from the Treasury and Capital Markets activity (financial institutions and private fixed income) and the credit risk with customers, arising from traditional investment activity.

In relation to the latter, the Parent Company's Board of Directors has delegated to the Main Operations Committee the maximum powers for all the amounts and risk figures, as well as the authorisation of defaults without limit on the amount. The Main Committee delegates powers to the Executive Committee, which in turn delegates to the Risk Management Department and the Commercial Network. The network's capacity to sanction risk is based on the level of risk and an alert system that takes into account factors such as the volume of risk, type of product and the margin of the operation.

The Risk Area, reporting to the General Manager, integrates the Risk Management, Monitoring and Recovery, Global Risk Control and Legal Departments. This has led to an increase in the efficiency of the processes for the admission, monitoring and recovery of credit risk and has strengthened the integrated control over the Parent Entity's risks.

With regard to Domestic and Commercial Credit Risk, all these matters are specified in the Risk Policy Manual, the latest update of which was approved by the Governing Board on 31 January 2019, and other related documents such as: Credit Risk Manual - Summary, and Manual of Good Practices in the Granting of Domestic Risks and MAP.

These documents determine the procedures for the granting, controlling and monitoring of credit risk and describe the usable predictive models, their variables, weighting, and capacities and criteria for sanctioning risks, the acceptance process, and risk mitigation and reduction policies.

The control mechanisms implemented by the Parent Entity for the control of the effective monitoring of the above-mentioned policies, methods and procedures are based on the Global Risk Control Systems implemented in the Parent Entity, as well as on the independent supervision of the Internal Audit Department, ensuring the quality of the risk acceptance and management systems.

The Risk Management Department, through Large Companies Risk Analysis and SME Risk Analysis sections, is responsible for the acceptance and follow-up of the portfolio companies. The objective of the Amicable and Pre-litigation Recovery section is to manage the protocols associated with pre-default alerts in non-portfolio companies as well as maximising recoveries during the amicable phase (< 75 days of non-payment) and the pre-litigation phase (> 75 days of non-payment), while the Global Risk Control Department is responsible for developing and maintaining the internal models, as well as the measurement and control of structural interest rate and liquidity risk, market risk and operational risk. Finally, the Legal Counsel Department gives advice and legal documentary coverage for risk operations both in the initial stages and in possible debt refinancing or restructuring, as well as for the management of the recovery in litigation and the Entity's legal defence against claims by third parties and customers.

To evaluate the credit risk associated with the various operations, Laboral Kutxa has developed internal rating and scoring models that enable customers (rating) or operations (scoring) to be distinguished on the basis of their level of risk. For individuals the reactive risk acceptance process is based on binding scorings which are complemented using proactive pre-grant models, on the basis of the rating, of consumer loans automatically available to the customer in the various channels. For corporate customers the acceptance processes utilise a dual analyst/manager arrangement, with a customer/analyst portfolio assignment. For taking decisions, analysts have available the internal ratings and a pre-default alert model. Internal models are, therefore, a basic factor in appraising risk and allow the Group to estimate both the expected loss and the regulatory capital allocated to each operation.

These internal models, prepared by the Risk Control Department and submitted to systematic reviews, are employed, therefore, in the decision process and, additionally, for the construction and development of integrated databases that allow calculations to be made of the severity, expected losses, capital consumption, etc., in the framework of the requirements of the New Basel Agreement on Capital. Moreover, both the scoring and rating models allow the Parent Company to calculate the associated costs and establish the pricing of the different operations for Individuals and Companies.

In the area of policies for risk mitigation and reduction, this is achieved through various paths:

- In the admission process, although the admission criteria are based upon the borrower' capacity to pay, in the calculation of which the internal models are essential protagonists, guarantees constitute the second means for collection. Bearing in mind that the majority of investment activity is related to home financing, the principal guarantee is the mortgage, the LTV relationship of the operations is particularly valued. Guarantee in the form of backing is very important, and cash deposits and financial assets as guarantees have lesser specific weighting.

- In the monitoring process, the Entity possesses internal pre-default models that allow prediction of payment default situations, so that those positions with a high default probability are managed in proactive manner.

- In recovery management a procedure has been implemented that covers the intervention of various agents in the recovery of the default, depending upon the time phase in which the default operation lies. Within this context, it should be noted that in recovery management both internal agents (offices, tele-bank, pre-trial and litigation) act along with external agents.

In general, the Parent Company measures real estate security at its appraised value, having established a policy of updating the value of property that meets the requirements laid down by Bank of Spain regulations.

With respect to credit risk with financial institutions and private fixed interest securities in the Treasury and Capital Markets area, ordinary limits are set annually by counterparty, concentration by reference and manager, and by country. To this end, a procedure for allocating limits based on external ratings and an alert system has been implemented. All of this is reflected in the documents "Treasury Area Risks and CM" and its Annexes, approved by the Governing Board, and which establishes the risk policy of Treasury and Capital Markets of the Entity.

(Expressed in thousands of euros)

Below is the breakdown, by counterparty, of Loans and advances - Clients (excluding "Other financial assets") as at 31 December 2018 and 2017, with a list of the amount covered by each of the main guarantees and the distribution of the secured financing by the percentage of the book value of the financing over the amount of the latest appraisal or valuation of the available guarantee:

2018

				Loans with real guarantee. Carrying amount on the latest available valuation *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: Other collateral**	**Less or equal to 40%**	**Greater than 40% and less or equal to 60%**	**Greater than 60% and less or equal to 80%**	**Greater than 80% and less or equal to 100%**	**> 100%**
Government Bodies	199,449	30,472	-	1,335	14,706	1,352	-	13,079
Other financial corporates and individual entrepreneurs	21,834	2,361	-	1,128	1,233	-	-	-
Other non-financial companies and individual entrepreneurs	2,396,684	894,476	10,841	408,931	234,406	133,236	32,777	95,967
– Property construction and development	61,645	53,687	-	2,448	14,530	6,819	8,164	21,726
– Public works construction	58,728	7,914	21	4,157	1,541	1,962	-	275
– Other purposes	2,276,311	832,875	10,820	402,326	218,335	124,455	24,613	73,966
Large corporates	361,576	28,303	459	6,982	1,575	754	1,376	18,075
SMEs and individual entrepreneurs	1,914,735	804,572	10,361	395,344	216,760	123,701	23,237	55,891
Other households	10,596,188	9,805,297	14,174	2,701,587	2,961,224	2,645,979	551,233	959,448
– Homes	9,865,216	9,628,950	12,258	2,610,236	2,919,734	2,621,132	546,023	944,083
– Consumer loans	404,934	35,975	654	25,323	5,921	2,314	692	2,379
– Other	326,038	140,372	1,262	66,028	35,569	22,533	4,518	12,986
TOTAL	13,214,155	10,732,606	25,015	3,112,981	3,211,569	2,780,567	584,010	1,068,494
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	275,081	223,300	512	35,897	48,384	44,289	22,905	72,335

2017

				Loans with real guarantee. Carrying amount on the latest available valuation *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: Other collateral**	**Less or equal to 40%**	**Greater than 40% and less or equal to 60%**	**Greater than 60% and less or equal to 80%**	**Greater than 80% and less or equal to 100%**	**> 100%**
Government Bodies	228,962	36,356	377	139	16,182	5,521	-	14,891
Other financial corporates and individual entrepreneurs	18,700	-	344	-	-	-	-	344
Other non-financial companies and individual entrepreneurs	2,386,038	680,072	301,767	436,972	236,538	147,620	38,083	122,626
– Property construction and development	84,640	75,248	209	2,776	12,486	15,319	11,002	33,874
– Public works construction	59,176	3,662	2,350	3,541	1,026	1,005	214	226
– Other purposes	2,242,222	601,162	299,208	430,655	223,026	131,296	26,867	88,526
Large corporates	302,072	28,010	6,244	11,919	721	814	623	20,177
SMEs and individual entrepreneurs	1,940,150	573,152	292,964	418,736	222,305	130,482	26,244	68,349
Other households	10,685,744	9,924,329	30,864	2,707,417	3,065,446	3,028,991	548,137	605,202
– Homes	9,985,115	9,753,039	10,461	2,609,329	3,018,895	3,002,340	543,343	589,593
– Consumer loans	374,951	37,826	837	26,972	6,607	2,615	448	2,021
– Other	325,678	133,464	19,566	71,116	39,944	24,036	3,346	13,588
TOTAL	13,319,444	10,640,757	333,352	3,144,528	3,318,166	3,182,132	586,220	743,063
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	304,602	227,547	19,856	33,495	52,381	52,774	31,467	77,287

(Expressed in thousands of euros)

A breakdown of the maximum credit risk covered by each of the primary guarantees and 31 December 2018 and 2017 is set out below:

	2018							
	Real estate collateral	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Drawn down	11,373,919	19,457	350,601	673,872	1,825,511	(649,873)	(358,905)	13,234,582
Value of the guarantee	28,755,999	29,530	1,690,107	673,872	286,656	-	-	31,436,164

	2017							
	Real estate collateral	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Drawn down	11,708,843	21,148	370,803	652,591	1,765,774	(737,567)	(384,288)	13,397,304
Value of the guarantee	28,616,935	31,559	1,470,315	652,591	231,576	-	-	31,002,976

The value of guarantees received to ensure collection of operations with customers, distinguishing between real guarantees and other guarantees at 31 December 2018 and 2017 is as follows:

Value of guarantees received	**2018**	**2017**
Value of real guarantees	30,446,105	30,087,250
Of which: guarantees doubtful risks	*1,006,979*	*1,104,144*
Value of other guarantees	990,059	915,726
Of which: guarantees doubtful risks	10,015	6,823
Total value of guarantees received	**31,436,164**	**31,002,976**

The following is information about the value of the financial guarantees granted as at 31 December 2018 and 31 December 2017:

	2018	**2017**
Loan commitments granted	989,896	960,576
Of which: amount classified as doubtful	*4,610*	*8,127*
Amount recorded in liabilities	-	-
Financial guarantees granted	94,871	93,520
Of which: amount classified as doubtful	*20,073*	*15,683*
Amount recorded in liabilities	12,719	11,015
Other commitments granted	289,202	280,463
Of which: amount classified as doubtful	*10,579*	-
Amount recorded in liabilities	6,761	9,977

(Expressed in thousands of euros)

In line with Bank of Spain recommendations on transparency in financing for construction and real estate promotion, financing for home acquisition and assets acquired in payment of debt and the valuation of the markets financing needs and using the disclosure models established in Circular 5/2011, of 30 November, by the Bank of Spain, the Group includes the following information:

a) <u>The exposure to the construction and real estate promotion sector.</u>

Financing destined to construction and real estate and coverage at 31 December 2018 and 2017 was as follows:

	2018		
	Gross carrying amount	**Excess gross exposure over maximum recoverable amount of effective real guarantees**	**Accumulated impairment value**
Financing to construction and real estate promotion (business in Spain)	**106,580**	**50,793**	**44,935**
Of which, doubtful	71,361	35,910	43,489
For Notes:			
Failed assets	361,586		

For Notes:	**Amount**
- Loans to clients, excluding Government Bodies (businesses in Spain)	13,039,763
- Total asset (total businesses)	22,989,333
- Impairment and provisions for normal rated exposures (total business)	64,687

	2017		
	Gross carrying amount	**Excess gross exposure over maximum recoverable amount of effective real guarantees**	**Accumulated impairment value**
Financing to construction and real estate promotion (business in Spain)	**157,013**	**82,667**	**71,284**
Of which, doubtful	120,735	65,450	70,032
For Notes:			
Failed assets	328,436		

For Notes:	**Amount**
- Loans to clients, excluding Government Bodies (businesses in Spain)	13,090,482
- Total asset (total businesses)	22,435,790
- Impairment and provisions for normal rated exposures (total business)	95,308

(Expressed in thousands of euros)

The following is a breakdown of financing for construction, real estate promotion and home purchase at 31 December 2018 and 2017:

	Financing to construction and real estate promotion. Gross carrying amount	
	2018	**2017**
Without mortgage guarantee	15,240	18,103
With mortgage guarantee	91,340	138,910
Finished buildings	61,441	92,436
Homes	52,756	72,552
Other	8,685	19,884
Buildings under construction	3,363	2,339
Homes	2,667	522
Other	696	1,817
Land	26,536	44,135
Developed land	23,314	36,371
Other land	3,222	7,764
Total	106,580	157,013

The breakdown of credit to households for home purchase at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Gross carrying amount	Of which: Doubtful	Gross carrying amount	Of which: Doubtful
Loans for home purchase	9,608,398	203,302	9,709,343	230,601
Without mortgage guarantee	187,625	3,397	183,242	3,075
With mortgage guarantee	9,420,773	199,905	9,526,101	227,526

The breakdown of credit with mortgage guarantee to households for home purchase in accordance to the percentage that the total risk represents of the amount of the latest official valuation available at 31 December 2018 and 2017 is as follows:

	Gross carrying amount on the last available valuation *(loan to value)*					
	2018					
	Less or equal to 40 %	Greater than 40 % and less or equal to 60 %	Greater than 60 % and less or equal to 80 %	Greater than 80 % and less or equal to 100 %	> 100 %	Total
Gross carrying amount	2,436,180	2,865,141	2,601,704	547,811	969,937	9,420,773
Of which, doubtful	14,684	22,211	32,887	28,235	101,888	199,905

	Gross carrying amount on the last available valuation *(loan to value)*					
	2017					
	Less or equal to 40 %	Greater than 40 % and less or equal to 60 %	Greater than 60 % and less or equal to 80 %	Greater than 80 % and less or equal to 100 %	> 100 %	Total
Gross carrying amount	2,423,213	2,960,408	2,979,684	547,626	615,170	9,526,101
Of which, doubtful	15,793	26,967	41,575	35,653	107,538	227,526

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in thousands of euros)

The breakdown of assets received in payment of debt at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Gross carrying amount	Accumulated impairment value	Gross carrying amount	Accumulated impairment value
Real estate assets from financing to construction and real estate promotion companies	**699,020**	**509,213**	**568,501**	**343,002**
Finished buildings	74,250	43,763	28,160	11,125
Homes	28,364	12,243	11,147	2,815
Other	45,886	31,520	17,013	8,310
Buildings under construction	119,359	73,086	130,929	67,871
Homes	118,913	72,672	130,929	67,871
Other	446	414	-	-
Land	505,411	392,364	409,412	264,006
Developed land	230,644	183,571	391,975	255,866
Other land	274,767	208,793	17,437	8,140
Real estate assets from mortgage financing to households for home purchase	**31,670**	**8,580**	**35,651**	**7,544**
Other real estate assets received in payment for debt	**28,509**	**7,248**	**21,750**	**5,980**
Equity instruments foreclosed or received in payment for debt	**-**	**-**	**-**	**-**
Equity instruments of entities holding foreclosed real estate assets or received in payment for debt	**-**	**-**	**-**	**-**
Financing to entities holding foreclosed real estate assets or received in payment for debts	**34**	**1**	**-**	**-**
Total	**759,233**	**525,042**	**625,902**	**356,256**

The value of guarantees received linked to financing for construction and real estate development as at 31 December 2018 and 2017 is as follow:

Value of guarantees received- Construction and real estate development	**2018**	**2017**
Value of real guarantees	288,196	366,461
Of which: guarantees doubtful risks	*145,387*	*244,714*
Value of other guarantees	1,311	431
Of which: guarantees doubtful risks	-	-
Total value of guarantees received	**289,507**	**366,892**

The value of the financial guarantees granted for operations for construction and real estate development as at 31 December 2018 and 2017 is as follow:

	2018	**2017**
Financial guarantees granted for construction and real estate development	26,013	17,917
Amount recorded in liabilities	2,013	3,137

Management of problematic risk in the Promotion Sector

Prior considerations

The Group's current policy is restrictive.

The admission criteria are as follows:

- Concerning current risks
  - Recover risks involving developers that have defaulted or are subject to risk of attachment or insolvency through the purchase of assets (amicable solution) via foreclosure or through the instigation of legal proceedings.
  - Restructure debt whenever this entails an improvement in the original situation (due to reduced exposure or improved guarantees) and does not entail additional provisions.
- Concerning new risk applications:
  - Land. We do not finance the purchase of land, limiting our involvement, where appropriate, to sales of land by the Asset-holding company of Laboral Kutxa to reputable developers.
  - Construction. The borrower and the financing project must meet stringent requirements to ensure their viability.
    - Only for developers with proven solvency. They require proven experience in the sector and a healthy balance sheet with a sustainable volume of debt and feasible projects.
    - Requirements to be met by projects:
      - Land must be free of charges and encumbrances and paid for in full, i.e. without any outstanding payments, resolutory conditions or guarantees linked to its purchase, swaps, etc.
      - The promoter must provide at least 30% of the total cost of the project or the land value if higher.

        If the land purchase is recent, the value of the land is considered to be the lower of the purchase value net of taxes and the appraised value.

        Therefore, LK will provide 70% of the cost at the most, including the cost of land.
      - Level of commercialisation, pre-sales, considered as such once the purchase contract is signed, minimum of 70% of sales volume or at proposal of promotions must reach a minimum volume of at least 100% of the loan to be granted.
      - Term of around 2 - 3 years, depending on the duration of the work and a reasonable period for selling.
      - Drawdowns. Drawdowns may amount to a maximum of 100% of the progress billings signed by the managing architect, provided that the debt is less than 70% of the appraised value.

In compliance with Law 8/2012, at 31 December 2018 and 2017 the Group records real-estate assets derived from financing of construction and property development in various asset management companies. Percentage interest and details are contained in Appendix I to the notes to the consolidated annual accounts.

The foreclosure value, as at 31 December 2018 and 2017, of the assets in said companies amounts to 566,598 thousand euros and 624,860 thousand euros, respectively. As at 31 December 2018, the balance of financing and capital or shareholder contributions to these companies amounted to 566,598 thousand euros and 93,883 thousand euros, respectively (624,860 and 113,154 thousand euros, respectively as at 31 December 2017), which at that date had an impairment adjustment of 429,220 thousand euros and 64,840 thousand euros, respectively (474,884 and 65,455 thousand euros, respectively as at 31 December 2017).

b) Refinancing transactions

The risk restructuring policy approved by the Group defines transaction restructuring as a risk management instrument designed to facility an amicable recovery. Accordingly, the Group distinguishes between refinancing transactions, in which a new loan is granted to extinguish an existing one, and restructuring transactions, in which one or more terms of an existing transaction are modified.

This policy stipulates that the power to authorise these kinds of transaction, regardless of whether or not there is a non-payment issue, resides exclusively with the Risk Management Department in its different sections.

No refinancing and / or restructuring operation may be classed, for purposes of doubt, as normal; the typologies of classification may be:

A) Standard exposure subject to special monitoring

Those that are not doubtful or failed, but have weaknesses. Operationally, this type of rating will be assigned by default; if the refinancing / restructuring operation is not classified in any of the types indicated below, it will remain normal under special surveillance.

B) Doubtful as a result of borrower arrears

Those in which the refinanced or restructured operations have over 90 days past due.

C) Doubtful for reasons other than borrowing arrears

Those in which there are reasonable doubts about their full repayment. Indications or indicators will be observed to support this situation.

Hedging of the loss due to credit risk (necessary provisioning) shall be carried out by collective estimation, except for those considered "significant" (3 million euros) or classified as Doubtful for reasons other than non-payment due to non-automatic factors. In these cases, the provision shall be estimated by means of an individualised analysis.

The Risk Analyst will have a proposal for the provision obtained from the model for the individualised estimate and will then establish the provision required based on the proposal of the model and knowledge of the operation.

(Expressed in thousands of euros)

In compliance with the amendments introduced by Circular 6/2012, of 28 September, and Circular 4/2017, of 27 November, defining the criteria for classifying transactions as refinancing transactions, refinanced transactions and restructured transactions, as well as the policies set by the Parent Entity in this respect, here is the breakdown as at 31 December 2018 and 2017 of refinancing, refinanced and restructured transactions:

2018 Financial Year

	TOTAL							Of which: doubtful						
	Without collateral		With real guarantee					Without collateral		With real guarantee				
					Maximum amount of real guarantee to be considered							Maximum amount of real guarantee to be considered		
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment value	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment value
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Bodies	-	-	10	11,221	7,184	-	(1,909)	-	-	1	6,916	5,007	-	(1,909)
Financial institutions and individual entrepreneurs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Financial institutions and individual entrepreneurs	1,175	73,148	763	215,598	83,143	164	(135,796)	961	31,006	584	186,930	58,398	60	(127,463)
Of which: Financing for construction and promotion (including land)	*7*	*659*	*79*	*51,855*	*21,094*	-	*(29,387)*	*6*	*656*	*67*	*48,237*	*18,502*	-	*(28,362)*
Rest of households	915	9,461	1,497	143,530	103,834	10	(40,172)	600	6,137	1,101	109,888	73,248	2	(38,780)
TOTAL	**2,090**	**82,609**	**2,270**	**370,349**	**194,161**	**174**	**(177,877)**	**1,561**	**37,143**	**1,686**	**303,734**	**136,653**	**62**	**(168,152)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2017 Financial Year

	TOTAL							Of which: doubtful						
	Without collateral		With real guarantee					Without collateral		With real guarantee				
					Maximum amount of real guarantee to be considered							Maximum amount of real guarantee to be considered		
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment value	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other collateral	Accumulated impairment value
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Bodies	-	-	9	11,607	1,421	8,094	-	-	-	1	7,107	-	7,106	-
Financial institutions and individual entrepreneurs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Financial institutions and individual entrepreneurs	1,036	78,072	817	260,331	57,786	42,231	(160,878)	805	30,822	687	192,996	45,543	31,581	(127,531)
Of which: Financing for construction and promotion (including land)	*9*	*958*	*103*	*89,052*	*21,723*	*14,753*	*(50,490)*	*9*	*958*	*90*	*83,763*	*18,667*	*13,322*	*(49,687)*
Rest of households	839	8,071	1,455	146,073	106,970	3,422	(38,674)	619	5,941	1,178	119,181	80,845	3,247	(38,105)
TOTAL	**1,875**	**86,143**	**2,281**	**418,011**	**166,177**	**53,747**	**(199,552)**	**1,424**	**36,763**	**1,866**	**319,284**	**126,388**	**41,934**	**(165,636)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(Expressed in thousands of euros)

The next table shows the breakdown as at 31 December 2018 and 2017 of the gross amounts of transactions classified as doubtful during the year subsequent to their refinancing or restructuring:

	2018		
	Gross amount		
	Mortgage guarantee	Other collateral	Without collateral
Government Bodies	-	-	-
Other legal persons and individual entrepreneurs	7,636	-	6,323
Of which: Construction and development loans	*3,656*	-	-
Other physical persons	8,048	-	459

	2017		
	Gross amount		
	Mortgage guarantee	Other collateral	Without collateral
Government Bodies	-	-	-
Other legal persons and individual entrepreneurs	4,147	1,845	6,841
Of which: Construction and development loans	*1,225*	-	-
Other physical persons	23,596	-	313

The value of guarantees received to ensure collection of refinancing and restructuring operations, distinguishing between real guarantees and other guarantees at 31 December 2018 and 2017 is as follows:

Value of guarantees received - Refinancing	2018	2017
Value of real guarantees	1,853,355	1,803,823
Of which: guarantees doubtful risks	612,177	591,137
Value of other guarantees	17,622	10,569
Of which: guarantees doubtful risks	3,745	2,740
Total value of guarantees received	**1,870,977**	**1,814,392**

The detailed movement of refinancing and restructuring operations, net of provisions, in 2018 and 2017 is as follows:

	2018	2017
Opening balance	**304,602**	**327,626**
(+) Refinancing and restructuring of the year	2,974	9,563
Memorandum item: impact recorded in the profit and loss account for the period	*(8,913)*	*(22,944)*
(-) Debt payments	(32,825)	(39,163)
(-) Adjudications	(4,749)	(4,370)
(-) Balance write-off (reclassification to failed)	(3)	(4)
(+)/(-) Other variations	5,082	10,950
Balance at year end	**275,081**	**304,602**

16. Liquidity risk

There are two different definitions of liquidity risk:

- Funds liquidity risk: is the risk that the Entity may not be able to efficiently face foreseen and unforeseen cash flows, present and future, as well as the contributions to guarantees resulting from its payment obligations, without its daily operations or financial situation being affected.

- Market liquidity risk: is the risk that a financial entity cannot compensate or easily dispose of a position at market prices because of a deep insufficiency or distortions on the market.

The Entity has always treated liquidity as a strategic objective, applying systematic management and control procedures over the past two decades. As part of this, Caja Laboral has a Liquidity Risk Policies and Procedures Guide approved by its Governing Body based on the Basel Committee on Banking Supervision's "Principles for sound liquidity risk management and supervision" (document dated September 2008) and establishes various liquidity objectives and a contingency plan including alert levels and action protocols. It is also worth mentioning that in 2015 the Parent Company also prepared the Risk Appetite Framework, which is the subject of a systematic process of authorisation and improvement, in which the different tolerance thresholds for certain key liquidity risk indicators are included, and, furthermore, the Recovery Plan, which updates the aforementioned alert levels and action protocols relating to situations of liquidity crisis.

As regards the tasks forming part of the procedures, liquidity management is supported by a control system that, on one hand determines key indicators limits like medium-term liquidity objectives and, on the other hand, systematically monitors the level of compliance with the objectives. These limits and objectives are controlled on the basis of a monthly updated financing plan that includes forecasts on the performance of investment resources, credit investment and wholesale financing, which determine the performance of the indicators subject to limits and objectives, allowing the ALCO to have permanently updated information on the expected performance of both the aforementioned indicators and liquidity in general over the medium term. The ALCO therefore has time to prepare appropriate actions to correct any imbalances in the evolution of aggregates affecting liquidity. Liquidity objectives include available liquid assets as well as various liquidity ratios, including the LCR, which at the end of 2018 reached very high levels in the Entity, more than covering the limit established by the regulator for 1 January 2018.

Specifically, at year-end 2018, the Parent Entity has:

- An LCR of 541%.

- Liquid discountable (and available) assets in the European Central Bank (ECB) of 5,064 million euros (following the application of haircuts), which allow unexpected contingencies to be dealt with. Of this amount, 723 million euros is available as an ECB loan and 4,341 million euros are eligible assets in the ECB which can be drawn down as collateral. Over the year, the Entity has maintained high positive net liquidity levels. Moreover, in March 2017 the Parent Company obtained an amount of 300 million euros in the framework of the ECB's TLTRO II long-term financing operations, although this did not entail an increase in liquidity, as it was obtained by pledging collateral.

- A balance in the Bank of Spain's current account of 1,395.6 million euros, of which 173.6 million correspond to the cash ratio.

- A Loan to Deposit Ratio standing at 74%.

(Expressed in thousands of euros)

- Wholesale Financing in which the Entity has followed a prudent policy:
  - With an amount of 1,525 million euros, which represents 7% of the total balance. This amount includes Market bonds and money taken from the ECB, and excludes Bonds for treasury shares, Securitisations and ICO financing, as their maturity flows are matched to those corresponding to the assets they finance.
  - Diversified with respect to financing sources. Thus, at the end of the financial year Caja Laboral had at its disposal issues of mortgage bonds (excluding treasury stock) amounting to 1,225 million euros and money taken (TLTRO II) from the ECB for 300 million euros (Note 36). The Parent Entity also has financing on the market through the securitisation of mortgage bond holdings (discounting the tranches acquired by the entity itself) for an amount of 138 million euros, and 9 million euros with respect to financing obtained through the ICO, although, as mentioned above, neither the ICO Financing nor the Securitisations require refinancing at maturity.
  - Diversified with respect to maturity. Thus, the Mortgage Bonds are produced from 2019 onwards, and in a diversified manner, and the ECB is due to mature in March 2021.

The financing structure of the Parent Entity is distributed in accordance with the following breakdown:

	2018	
Financing structure	**Millions of euros**	**%**
Client deposits	17,337	77.79
Mortgage bonds (1)	1,225	5.50
Taken from ECB	300	1.35
Securitisation (1)	138	0.62
ICO and EIB financing	9	0.04
Total Assets	22,287	

(1) Excluding own repurchased portfolio,

Set out below is a breakdown of wholesale financing by maturity date as from 2019:

	Millions of euros			
Maturities of wholesale issues	**2019**	**2020**	**2021**	**>2021**
Mortgage Bonds	100	500	625	-
Territorial bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	19	17	16	86
Taken from ECB	-	-	300	-
ICO and EIB financing	3	2	1	3
	122	519	942	89

Liquidity needs in the medium-term are amply covered by the financing capacities. Thus in the tables below Net Liquid Assets available are shown after the application of "haircuts" and the Entity's Issue Capacity:

	Millions of euros 31.12.2018 Utilised	Millions of euros 31.12.2018 Available
Net Liquid assets (2)	-	5,064

(2) Criteria of the Bank of Spain liquidity statements (excluding equity instruments)

Issue Capacity	**Millions of euros**
Issue capacity in Mortgage Bonds	4,597
Issue capacity in Territorial Bonds	136
Disposable in issues guaranteed by the State	-
	4,733

The next table, meanwhile, analyses (in millions of euros) the Parent Entity's assets and liabilities grouped by remaining term to contractual maturity under the criteria used to prepare the liquidity statements sent to the Bank of Spain (i.e., excluding past due balances, doubtful loans, foreclosed assets and non-performing assets written off):

2018

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Millions of euros							
	Total balance	On demand	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than up to 5 years
TOTAL cash inflows	18,886	90	509	455	635	1,391	5,083	10,723
TOTAL cash outflows	(19,826)	(15,287)	(1,086)	(385)	(426)	(1,009)	(1,573)	(60)
Net	(940)	(15,197)	(577)	70	209	382	3,510	10,663

2017

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Millions of euros							
	Total balance	On demand	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than up to 5 years
TOTAL cash inflows	17,761	67	589	441	390	1,373	5,894	9,007
TOTAL cash outflows	(19,059)	(14,358)	(783)	(448)	(515)	(1,163)	(1,695)	(97)
Net	(1,298)	(14,291)	(194)	(7)	(125)	210	4,199	8,910

(Expressed in thousands of euros)

17. Interest rate risk

The interest rate risk relates to losses that may arise in the income statement and the Group's equity value as a result of adverse interest rate movements.

The Governing Body has delegated to the Asset and Liability Committee (ALCO) the management and control of this risk within the limit set by that Body. This limit is established in terms of the maximum acceptable loss between two interest rate scenarios: market and an unfavourable scenario.

The ALCO systematically analyses exposure to the interest rate risk and through active management, attempts to anticipate through its decisions any negative medium-term impact on the income statement of unwanted variations in market interest rates. Its decisions are based on the measurement of the Entity's long-term results under different interest rate scenarios, carried out through simulations that deal with balance sheet and off-balance sheet structural positions.

The accompanying table sets out the static gap of interest rate sensitive items, which represents an initial approximation to the Parent Entity's exposure to interest rate fluctuations. However, given the limitations that this entails, it should be noted that this is not the measurement technique used by Caja Laboral to measure that risk, which has been described above.

	Millions of euros								
	Balance on balance sheet as at 31/12/2018	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Sensitive assets	21,303	4,844	3,486	8,602	619	1,057	291	364	2,040
Money market	1,681	1,681	-	-	-	-	-	-	-
Credit market	14,123	2,694	3,044	5,874	403	304	252	225	1,327
Securities market	5,499	469	442	2,728	216	753	39	139	713
Sensitive liabilities	19,930	6,442	1,901	*4,284*	*96*	*422*	*22*	*6,763*	-
Money market	1,764	227	526	608	4	399	-	-	-
Creditors	18,166	6,215	1,375	3,676	92	23	22	6,763	-
Simple GAP		(1,598)	1,585	4,318	523	635	269	(6,399)	2,040
% of total liabilities		(8%)	7%	20%	2%	3%	1%	(30%)	10%
Cumulative GAP		(1,598)	(13)	4,305	4,828	5,463	5,732	(667)	1,373
% of total liabilities		(8%)	(0%)	20%	23%	26%	27%	(3%)	6%

	Millions of euros								
	Balance on balance sheet as at 31.12.17	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Sensitive assets	20,320	5,452	3,590	7,576	978	482	953	208	1,081
Money market	2,016	1,994	-	22	-	-	-	-	-
Credit market	14,160	2,864	3,188	5,875	427	286	219	188	1,113
Securities market	4,144	594	402	1,679	551	196	734	20	(32)
Sensitive liabilities	19,188	7,050	2,019	4,495	106	29	425	5,067	(3)
Money market	1,911	362	527	611	5	5	404	(0)	(3)
Creditors	17,277	6,688	1,492	3,884	101	24	21	5,067	-
Simple GAP		(1,598)	1,571	3,081	872	453	528	(4,859)	1,084
% of total liabilities		(8%)	8%	15%	4%	2%	3%	(24%)	5%
Cumulative GAP		(1,598)	(27)	3,054	3,926	4,379	4,907	48	1,132
% of total liabilities		(8%)	(0%)	15%	19%	22%	24%	0%	6%

Those items with an associated contractual interest rate are considered interest rate sensitive and are therefore included in the gap. Other items are excluded, namely Measurement Adjustments, Non-classifiable Credit, Cash, Fixed Assets (including foreclosed assets), Derivatives, Sundry and Accrual Accounts, Community Projects, Special Funds, Capital and Reserves and Results for the year.

In that gap items deemed sensitive are distributed in different timing tranches on the basis of the following criteria: Variable interest rate products are located in the timing tranche relating to the time when interest is revised (re-appreciated). Fixed interest rate items are distributed on the basis of time remaining to maturity. For on-demand products, the Parent Entity has established assumptions regarding behaviour based on estimates of balance variances. Econometric analyses have been performed on each type of account with no explicit maturity date (interest-free, administered and indexed accounts) based on the evolution of the interest rate applied to these accounts and the market interest rate.

According to the impact analysis performed by the Entity for the Supervisor, a fall of 200 basis points in interest rates would cause a reduction of approximately 2.21% in net interest income in year one. The criteria established by the Supervisor for the preparation of these analyses are basically the maintenance of the initial balances and balance sheet structure, the evolution of interest rates in accordance with market expectations, the 5-year term limit for non-interest-bearing current accounts, and a floor of 0% for market interest rates, unless they are currently negative, in which case this level constitutes the floor.

As for the impact on the financial value, a decrease of 200 basic points in the interest rates would generate a 46.3 million euro increase in the financial value of the Parent Company, that is to say, around 2.91% of its Own Resources. Also, an increase of the same magnitude would generate a 291.5 million euro increase in the financial value of the Parent Company, that is, 18.29% of its Own Resources. The criteria used to calculate this impact are the same as those outlined in the interest rate gap sensitivity analysis above.

18. Other market risks

After the closing of 2017 with maximum growth expectations, the new year began with good omens regarding risk assets. However, 2018 will go down in history as one of the years in which the highest percentage of underlying assets had negative returns. Diversification has not worked and, for a global investor, there has been practically no asset in which to take refuge. Several factors have contributed to this market performance in a year that went from better to worse and ended with a very negative last quarter.

Paradoxically, in terms of the progression of macroeconomic variables, 2018 closed with robust global GDP growth of 3.7% and only slowing down one tenth compared to the previous year. On the positive side, the US economy grew by 2.9% (7 tenths more than the previous year), benefiting from the tax boost applied by the Trump administration. Meanwhile, the emerging countries once again recorded higher growth than the developed countries, with a slight deceleration of one tenth compared to the previous year to reach 4.6%. On the negative side, the Euro Zone stands out with a growth of 1.8% and a deceleration of 6 tenths with respect to 2017.

Although from the point of view of annual growth records, the economy behaved well at a global level, the course of this growth throughout the year and by geographical areas was what determined the behaviour of the markets. As the year advanced, the slowdown in growth became more and more evident, especially in the Euro Zone. Several factors contributed to this slowdown, most of them sharing a common element, uncertainty.

One of the most significant elements was the normalisation of monetary policy carried out by the FED. The US central bank carried out four 25 b.p. increases during the year, in addition to starting with the reduction of its consolidated balance sheet by not reinvesting the maturities from the securities acquired with the application of its QE, also conveying the message that there was still a long way to go in the normalisation of its economic policy to reach more neutral levels. This resulted in the rise in dollar interest rates (both short and long-term) and as a result the appreciation of the dollar and the depreciation of emerging currencies. With the depreciation of their currencies, there were some countries that went through very complicated periods and, in general, the expectations for emerging markets were overshadowed (among other things because some countries had to raise their interest rates to defend their currencies).

In the Euro Area, the ECB finished its purchasing program in December and announced that it would keep the reference rates unchanged until at least after the summer of 2019, something that the market interpreted as starting the rate hike from the third quarter of that year.

The second factor that added a lot of uncertainty was the "trade war" initiated by the Trump administration against countries with large trade surpluses with the USA, especially against China. The way in which the negotiations between the two countries have developed and the unorthodox tactics of President Trump, have caused a long delay in the resolution of the conflict and this has had a clear effect on the paralysis of investment projects and the decline in international trade.

Another factor that has also produced uncertainty, with a greater impact on Europe, has been Brexit. The agreements reached in the negotiations between the UK government and the European Commission did not find sufficient support in the British parliament, which has led to a kind of limbo in which, within the country's political class, there is no consensus for any alternative acceptable to the EU, which means that in the short time remaining, the chances of a hard Brexit, that would have difficult to predict consequences for both the UK and the rest of Europe, increase.

Lastly, and also in Europe, Italy has been a major factor causing uncertainty, firstly because of its challenge to the EU, as the government coalition presented budgets that exceeded the limits set by the Commission and with an unfriendly discourse towards the EU, and then because of the weak growth data that led to a technical recession at the end of the year, something that, in a country with very high levels of debt, worries the markets.

All these unsettling factors became more prominent throughout the year, causing a sharp drop in confidence indicators and fears that the economic downturn may intensify began to spread by the end of the year, causing markets to collapse in the last quarter, which in turn affected expectations in a self-feeding loop.

In this environment of uncertainty, risky assets behaved negatively in almost all categories, in which most of the losses were recorded in the last quarter. Thus the main variable income indices closed in red numbers, although with some dispersion among them. The best relative performance was seen in the US indices (S&P500 recorded -6.24% and Nasdaq -3.88%) while European and emerging indices were at the bottom (Eurostoxx50 ended the year with -14.34%, Ibex35 with -14.97% and MSCI Emergents with -16.63%).

The generalised increases in private fixed income spreads, higher in those with the worst credit quality, led to negative returns in almost all categories. In Europe, the Iboxx index of investment-grade corporates ended with a return of -1.29%, the high yield with -3.61% and that of subordinated banks with -3.31%. Meanwhile, Credit Suisse's emerging corporates index fell -2.26% and JP Morgan's emerging governments index fell -4.61%. In contrast, the Barclays high yield US index rose +2.64%.

Faced with widespread demands from the credit markets, the debt markets were almost the only ones that, against all odds, recorded positive yields, in a year in which most investors expected rate hikes that would lead to negative yields. The German and Spanish debt markets are among the best performers, with IRR falling, allowing their benchmark indices to close the year with positive yields, as shown by the German and Spanish Iboxx indices of government debt, which rose by around 2.5%. On the negative side, the Italian public debt is notable, recording a considerable widening of spreads which led to its reference indices recording losses (-1.29% the Iboxx index). After a poor performance in the US government bond market due to the progressive rise in its IRR over the year (the 10-year bond reached 3.25%), the collapse of the risk markets at the end of the year and the safe-haven nature of government debt (the 10-year bond closed at 2.65%) allowed the government bond indices to close positively (+0.85% for the Barclays index).

In these circumstances, the securities included in the various portfolios that are recorded at fair value with changes in equity, behaved in line with market trends, which was reflected in the balance of net capital gains and losses shown in the valuation adjustments accounts.

19. Operational Risk

It is the risk of incurring in losses to insufficient or procedures human resources and internal systems or external events.

Laboral Kutxa has complied with its reporting obligations through the standard method, according to the methodology described in Regulation 575/2013 of the European Parliament and Council of 26 June 2013.

On a qualitative level, the Entity has risk maps and controls in all departments. Annually, a risk self-assessment is performed and then action plans are launched to mitigate the most critical risks.

The Parent Entity has a network of 56 coordinators and 28 validators to perform the functions required by the system (self-assessments and action plans).

On a quantitative level, the Parent Entity has operated an internal database of operating losses since 2002. Each loss is assigned to an event type and business line, defined by Regulation 575/2013 of the European Parliament and Council of 26 June 2013.

Additionally, Laboral Kutxa is part of the benchmarking system of the Spanish Confederation of Savings Banks, from which it obtains a vision of the relative position of the Entity in relation to the Savings Banks sector.

20. Insurance operation risk

Risks relating to insurance policies include a number of variables that could significantly affect future cash flows in terms of both amount and chronological distribution.

Mortality, disability and longevity tables are variables that affect the loss ratio and therefore cash outflows due to claim payments. The Group periodically adjusts its technical bases for mortality and survival tables using the most recent data supplied by national and international insurance industry work groups and on statistics approved by the Directorate General for Insurance and Pension Funds.

In accordance with the regulations laid down by the Directorate General for Insurance, the Group has applied PERM/F-2000 tables to new insurance saving products since 15 October 2000. For the risk of death in new business the PASEM-2010 tables are used, while PEAIM-2007 tables are used for risk of disability. The shortfall in the portfolio existing when the tables were applied was absorbed in 2007, even though the prevailing legislation provided for a period of 15 years as from 1 January 1999.

With respect to policies carrying a guaranteed technical interest rate in force before the Private Insurance Regulations (RD 2486/1998, 20 November) came into effect (the Regulations), the Group applies the provisions of Transitional Provision Two of the Regulations, verifying that the actual return on the investments linked to these policies is higher than the technical interest rate stipulated in the policies.

For the policies in force issued after the entry into force of the Regulation, the Group uses the fifth additional provision of the Regulation of 2016, applying the risk-free curve including the component relating to the volatility adjustment to the portfolio, following a linear calculation method until the adaptation period fixed at 10 years from 31/12/2015, and for contracts entered into on or after 1/1/2016 directly the risk-free curve including the component relating to the volatility adjustment.

In this respect, the Group complies with the provisions of the Regulations, assigning a portfolio and financial investments to this type of assets and checking each year that the real return on these assets is higher than the average return used to determine the mathematical reserve.

Even when the Group does not apply the provisions of article 33.2 of the Regulations to the majority of its assets, it monitors asset and liability cash flow projections as a whole, basing such projections on internal assumptions to calculate life expectancy and disability rates, surrender values and expenses and checks it has sufficient financial investments in respect of committed liabilities using these assumptions.

In keeping with Spanish legislation, the Group's policies cover the consequences of the catastrophes covered by the Insurance Compensation Consortium, an entity that reports to the Ministry for Finance.

Elsewhere, the Group uses reinsurance contracts to reduce the risk of claims under the policies entered into.

The directors believe that risk is not significantly concentrated because the Group's insurance business is based primarily on insuring the personal liabilities of individuals and therefore, barring catastrophe risk, in any event covered by the Insurance Compensation Consortium, risk levels are low.

The Claims Reserve is calculated in accordance with Private Insurance Regulations.

At the date of preparation of these annual accounts, the Parent Entity's directors confirm that an internal risk and solvency assessment has been carried out and that the Group's Insurance Companies comply with the overall solvency requirements taking into account their profile risk tolerances, approved risk tolerance limits as well as business strategy.

It has implemented processes that are proportionate to the nature, volume and complexity of inherent risks to its activity and that make it possible to determine and evaluate the short and long term risks to which the Group's Insurance entities are or could be exposed.

The Parent Entity's directors also confirm that the Group's insurance companies continuously comply with capital requirements and technical provision requirements.

21. Risk concentration

Pursuant to EU Parliament and Council Regulation 575/2013 and subsequent amendments concerning solvency requirements, with respect to major exposures, defined as those exceeding 10% of equity, no exposure to one party or group may exceed 25% of equity. If in an exceptional case exposures exceed that limit, the entity shall immediately report the size of the exposure to the competent authorities, which may grant the credit institution, if the circumstances so warrant, a limited period of time to comply with the limit. The Entity's risk appraisal policy takes into account these limits and criteria, having established risk limits by counterparty that are consistent with these requirements and control procedures over any excess.

At 31 December 2018 and 2017, only the risk with the MONDRAGON cooperatives, which for the purposes of large exposures are considered to be an economic risk unit, may be regarded as a "large exposure" as it exceeds 10% of equity.

(Expressed in thousands of euros)

The Parent Entity's concentrations of risk by geography (where the exposure is located) and counterparty category, showing the carrying amounts of these exposures at 31 December 2018 and 2017, are as follows:

2018

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,044,340	1,579,971	445,482	14,838	4,049
Government Bodies	6,644,178	6,074,433	569,745	-	-
– Central administration	6,241,641	5,672,624	569,017	-	-
– Other public administrations	402,537	401,809	728	-	-
Other financial companies and individual entrepreneurs	175,510	104,976	32,122	15,948	22,464
Other non-financial corporates and individual entrepreneurs	2,751,370	2,695,306	49,581	4,980	1,503
– Property construction and development	91,764	91,764	-	-	-
– Public works construction	119,561	119,440	121	-	-
– Other purposes	2,540,045	2,484,102	49,460	4,980	1,503
Large corporates	509,133	461,205	43,631	3,712	585
SMEs and individual entrepreneurs	2,030,912	2,022,897	5,829	1,268	918
Other households	10,605,335	10,584,500	15,902	2,987	1,946
– Homes	9,865,216	9,845,352	15,177	2,752	1,935
– Consumer loans	404,934	404,654	235	34	11
– Other	335,185	334,494	490	201	-
TOTAL	22,220,733	21,039,186	1,112,832	38,753	29,962

2017

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,556,359	1,893,559	638,591	19,302	4,907
Government Bodies	5,355,574	4,826,328	529,246	-	-
– Central administration	4,949,377	4,420,131	529,246	-	-
– Other public administrations	406,197	406,197	-	-	-
Other financial companies and individual entrepreneurs	254,035	154,264	59,748	20,210	19,813
Other non-financial corporates and individual entrepreneurs	2,726,937	2,674,113	47,294	4,246	1,284
– Property construction and development	92,030	91,949	81	-	-
– Public works construction	133,305	133,187	118	-	-
– Other purposes	2,501,602	2,448,977	47,095	4,246	1,284
Large corporates	444,025	393,343	46,618	2,982	1,082
SMEs and individual entrepreneurs	2,057,577	2,055,634	477	1,264	202
Other households	10,694,750	10,674,375	15,283	2,843	2,249
– Homes	9,985,115	9,965,785	14,504	2,599	2,227
– Consumer loans	374,951	374,613	288	28	22
– Other	334,684	333,977	491	216	-
TOTAL	21,587,655	20,222,639	1,290,162	46,601	28,253

(a) The definition of exposures includes loans and receivables, debt securities, equity instruments, derivatives held for trading, hedging derivatives, investments in joint ventures and associates and guarantees given, no matter under which balance sheet heading they are recorded.

The geographic breakdown is made depending on the country or Spanish regional government of residency of the borrower, securities issuer and counterparties to derivatives and guarantees given.

(Expressed in thousands of euros)

2018

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Central Banks and credit institutions	1,579,971	27,217	-	1,499,608	53,146
Government Bodies	6,074,433	191,208	9,123	187,984	5,686,118
– Central administration	5,672,624	-	-	-	5,672,624
– Other public administrations	401,809	191,208	9,123	187,984	13,494
Other financial corporates and individual entrepreneurs	104,976	60,376	618	36,391	7,591
Other non-financial corporates and individual entrepreneurs	2,695,306	1,653,505	250,443	218,497	572,861
– Property construction and development	91,764	60,853	4,801	7,685	18,425
– Public works construction	119,440	69,768	6,524	34,581	8,567
– Other purposes	2,484,102	1,522,884	239,118	176,231	545,869
Large corporates	461,205	311,527	23,626	62,192	63,860
SMEs and individual entrepreneurs	2,022,897	1,211,357	215,492	114,039	482,009
Other households	10,584,500	6,130,198	1,236,735	497,461	2,720,106
– Homes	9,845,352	5,735,152	1,156,318	367,091	2,586,791
– Consumer loans	404,654	252,402	47,898	11,260	93,094
– Other	334,494	142,644	32,519	119,110	40,221
TOTAL	21,039,186	8,062,504	1,496,919	2,439,941	9,039,822

2017

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Central Banks and credit institutions	1,893,559	33,455	-	1,783,769	76,335
Government Bodies	4,826,328	222,482	8,941	163,746	4,431,159
– Central administration	4,420,131	-	-	-	4,420,131
– Other public administrations	406,197	222,482	8,941	163,746	11,028
Other financial corporates and individual entrepreneurs	154,264	66,987	674	46,762	39,841
Other non-financial corporates and individual entrepreneurs	2,674,113	1,648,705	267,857	214,960	542,591
– Property construction and development	91,949	60,151	6,627	1,782	23,389
– Public works construction	133,187	74,613	6,578	42,670	9,326
– Other purposes	2,448,977	1,513,941	254,652	170,508	509,876
Large corporates	393,343	283,533	27,031	45,875	36,904
SMEs and individual entrepreneurs	2,055,634	1,230,408	227,621	124,633	472,972
Other households	10,674,375	6,189,158	1,268,594	463,024	2,753,599
– Homes	9,965,785	5,808,101	1,188,489	341,833	2,627,362
– Consumer loans	374,613	234,788	43,183	10,729	85,913
– Other	333,977	146,269	36,922	110,462	40,324
TOTAL	20,222,639	8,160,787	1,546,066	2,672,261	7,843,525

(a) The definition of exposures includes loans and receivables, debt securities, equity instruments, derivatives held for trading, hedging derivatives, investments in joint ventures and associates and guarantees given, no matter under which balance sheet heading they are recorded.

The following notes provide details of credit risk concentration at the Group by transaction type, sector of activity, geographic exposure, currency, credit quality, etc.

(Expressed in thousands of euros)

22. Cash, cash balances at central banks and other on demand deposits

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Cash	67,318	72,514
Cash balances at central banks	1,395,458	1,682,657
Other demand deposits	110,570	93,074
	1,573,346	1,848,245
By currency:		
In euros	1,561,278	1,829,915
In dollars	8,340	13,406
In Swiss francs	127	73
In pounds sterling	2,306	1,369
In Japanese yen	114	2,185
Other	1,181	1,297
	1,573,346	1,848,245

The average rate of interest per annum in 2018 and 2017 on cash balances at central banks and other deposits amounted to 0.039% and 0.032%, respectively.

Under EC Regulation 1745/2003 of the European Central Bank, credit institutions in EU Member States were required to comply with a minimum reserve ratio of 1% at 31 December 2018 and 2017, respectively, calculated on the basis of their qualifying liabilities as determined in said Regulation. As at 31 December 2018 and 2017, part of the balance of the current account held with the Bank of Spain affected compliance with the minimum reserve ratio and the Parent Entity complied with the minimum requirements for this ratio under current regulations.

23. Financial assets and liabilities held for trading

The breakdown of these items in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Derivatives	4,342	3,796	1,893	1,533
Equity instruments	494	541	-	-
Debt securities	122,275	140,124	-	-
	127,111	144,461	1,893	1,533

During the 2018 financial year, the "Financial assets held for trading" item decreased by approximately 17 million euros, mainly due to the sale of debt issued by the State and Autonomous Communities. During the 2017 financial year, the Financial assets held for trading decreased by approximately 39 million euros, mainly due to the sale of debt issued by the State and Autonomous Communities, as well as other fixed-income securities.

The fair value of the items included in financial assets and liabilities held for trading at 31 December 2018 and 2017, as well as the measurement techniques applied, are set out in Note 42.

(Expressed in thousands of euros)

The effect on the consolidated profit and loss accounts for the years ended 31 December 2018 and 2017 of changes in the fair value of items included in Financial assets and liabilities held for trading is as follows (Note 52):

	Gains		Losses	
	2018	**2017**	**2018**	**2017**
Derivatives	48,649	5,653	62,448	5,364
Equity instruments	315	-	358	-
Debt securities	47,458	57,032	33,547	56,451
	96,422	62,685	96,353	61,815

The breakdown based on the criterion for determining the fair value of the effect on the consolidated profit and loss accounts for the years ended 31 December 2018 and 2017 resulting from changes in fair value of the financial assets and liabilities held for trading is as follows:

	Gains		Losses	
	2018	**2017**	**2018**	**2017**
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	47,773	57,032	33,905	56,451
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	48,649	5,653	62,448	5,364
Data not supplied by the market (Level 3)	-	-	-	-
	96,422	62,685	96,353	61,815

The breakdown by currency and maturity of the financial assets and liabilities held for trading headings of the consolidated balance sheets at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	**2017**	**2018**	**2017**
By currency:				
In euros	127,096	144,461	1,873	1,533
In US dollars	15	-	20	-
	127,111	144,461	1,893	1,533
By maturity:				
Up to 1 month	117	169	50	510
Between 1 month and 3 months	157	275	131	127
Between 3 months and 1 year	791	1,085	200	166
Between 1 and 5 years	33,800	41,351	436	566
More than 5 years	91,752	101,040	1,071	164
No set maturity	494	541	5	-
	127,111	144,461	1,893	1,533

(Expressed in thousands of euros)

a) Credit risk

Set out below is an analysis of credit risk concentrations by the geographical sector in which the risk is located, counter-party categories, and instrument types, indicating book value at the dates in question:

	2018		2017	
	Amount	**%**	**Amount**	**%**
By geographical sector:				
Spain	126,761	99.72%	144,447	99.99%
Other European Union countries	350	0.28%	14	0.01%
Rest of the world	-	-		-
	127,111	100.00%	144,461	100.00%
By counter-party categories:				
Credit institutions	3,696	2.51%	2,599	1.80%
Resident Public Administrations	122,275	96.20%	140,124	97.00%
Other resident sectors	1,140	1.29%	1,738	1.20%
Other non-resident sectors	-	-	-	-
	127,111	100.00%	144,461	100.00%
By instrument types:				
Listed bonds and debentures	122,275	96.20%	140,124	97.00%
Other fixed income securities	-	-	-	-
Derivatives not traded on organised markets	4,342	3.42%	3,796	2.63%
Listed shares	494	0.38%	541	0.37%
	127,111	100.00%	144,461	100.00%

A breakdown of the Financial assets held for trading based on external credit ratings assigned by the main rating agencies is as follows:

	2018		2017	
	Amount	**%**	**Amount**	**%**
Risks rated A	123,632	97.26%	54	0.03%
Risks rated B	411	0.32%	137,564	95.23%
Amounts not assigned	3,068	2.42%	6,843	4.74%
	127,111	100.00%	144,461	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2018 and 2017 break down as follows:

	2018	2017
Spanish National / Regional Public Debt	118,312	135,764
Credit Official Institute	25	-
Other fixed income securities	3,938	4,360
	122,275	140,124

The average annual interest rate on the debt securities in the banking business in 2018 and 2017 was 0.857% and 0.988%, respectively.

(Expressed in thousands of euros)

c) Equity instruments

The breakdown of the balance of equity instruments on the asset side of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Equity investments in Spanish entities	-	-
Equity investments in foreign entities	-	-
Shares in Investment Funds	494	541
Other shareholdings	-	-
	494	541

d) Derivatives held for trading

The breakdown of the balance of Derivatives under "Financial assets held for trading" and "Financial liabilities held for trading" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018		
	value Notional	Fair Value Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	78,790	1,199	68
Sales	34,954	95	338
Securities, indices and interest rate futures			
Purchased	11,200	-	-
Sold	4,600	-	-
Securities options			
Purchased	57,130	682	-
Sold	1,316,078	-	-
Currency options			
Purchased	1,922	15	-
Sold	1,922	-	20
Interest rate options			
Purchased	19,947	722	-
Sold	1,868	-	3
Other interest rate operations			
FRAs	-	-	-
Financial swaps	19,016	195	143
Call Money Swap (CMS)	-	-	-
Other term transactions	-	1,434	1,321
		4,342	1,893

(Expressed in thousands of euros)

	2017		
	value Notional	Fair Value	
		Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	29,678	23	784
Sales	45,540	1,517	20
Financial and interest rate forwards			
Purchased	-	-	-
Sold	-	-	-
Securities options			
Purchased	39,180	948	-
Sold	1,383,798	-	-
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	19,998	896	-
Sold	1,398	-	5
Other interest rate operations			
FRAs	-	-	-
Financial swaps	23,526	207	136
Call Money Swap (CMS)	-	-	-
Other term transactions	-	205	588
		3,796	1,533

The notional and/or contractual amount of contracts corresponding to Derivatives held for trading does not imply a quantification of the risk assumed by the Group since its net position is obtained from the offsetting and/or combination of these instruments.

The guarantees provided by the Group to certain investment funds and voluntary social welfare entities (all of which are managed by companies belonging to the Laboral Kutxa Group (See Appendix I)) are recorded as issued options on securities. The nominal value of these transactions as at 31 December 2018 and 2017 amounted to 1,316 and 1,384 million euros, respectively, with a fair value of 0 thousand euros in both cases.

The effect of the inclusion of both counterparty risk and own risk in the valuation of derivatives held for trading as at 31 December 2018 and 2017 is not material.

The differences between the value of derivatives sold and purchased to customers and those bought and sold to counter-parties, where there is a margin for the Group, are not material.

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

The breakdown of these items in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Debt securities	-	2,137	-	-
Equity instruments	-	380	-	-
	-	2,517	-	-

(Expressed in thousands of euros)

The fixed-income and equity securities contributed by the Group's insurance business, classified as at 31 December 2017 under the heading "Financial assets designated at fair value through profit or loss", have been reclassified to the heading "Financial assets not held for trading, mandatorily valued at fair value through profit or loss" (Note 27) in order to maintain a portfolio management model in line with the Parent Company. This reclassification has not had any impact on "Reserves" or "Accumulated other comprehensive income".

The fair value of the items included in this category as at 31 December 2018 and 2017, as well as the measurement techniques applied, are set out in Note 42.

The effect on the consolidated income statement for the years ended 31 December 2018 and 2017 resulting from changes in the fair value of the items recorded as assets and liabilities at fair value through changes in profit and loss, is as follows (Note 53):

	Gains		Losses	
	2018	**2017**	**2018**	**2017**
Equity instruments	-	124	-	48
Debt securities	-	111	-	28
	-	235	-	76

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2018 and 2017, resulting from changes in the fair value of assets and liabilities at fair value through changes in profit and loss is as follows:

	Gains		Losses	
	2018	**2017**	**2018**	**2017**
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	-	235	-	76
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	-	-	-	-
Data not supplied by the market (Level 3)	-	-	-	-
	-	235	-	76

The breakdown of the headings Financial assets and liabilities designated at fair value through profit and loss in the consolidated balance sheets at 31 December 2018 and 2017, by currency and maturity date, is as follows:

	Assets		Liabilities	
	2018	**2017**	**2018**	**2017**
By currency:				
In euros	-	2,517	-	-
	-	2,517	-	-
By maturity:				
On demand	-	-	-	-
Between 3 months and 1 year	-	-	-	-
Between 1 and 5 years	-	-	-	-
More than 5 years	-	2,137	-	-
No set maturity	-	380	-	-
	-	2,517	-	-

(Expressed in thousands of euros)

a) Credit risk

Set out below is an analysis of credit risk concentrations by the geographical sector in which the risk is located, counter-party categories, and instrument types, indicating book value at the dates in question:

	2018		2017	
	Amount	%	Amount	%
By geographical sector:				
Spain	-	-	2,517	100.00%
Other European Union countries	-	-	-	-
Rest of the world	-	-	-	-
	-	-	2,517	100.00%
By counter-party categories:				
Credit institutions	-	-	2,137	84.90%
Resident Public Administrations	-	-	-	-
Other resident sectors	-	-	380	15.10%
Other non-resident sectors	-	-	-	-
	-	-	2,517	100.00%
By instrument types:				
Listed bonds and debentures	-	-	2,137	84.90%
Other fixed income securities	-	-	-	-
Shares in Investment Funds	-	-	380	15.10%
	-	-	2,517	100.00%

The breakdown of other financial assets at fair value through changes in profit or loss based on external credit ratings assigned by the main rating agencies is as follows:

	2018		2017	
	Amount	%	Amount	%
Risks rated A	-	-	-	-
Risks rated B	-	-	2,137	84.90%
Amounts not assigned	-	-	380	15.10%
	-	-	2,517	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2018 and 2017 break down as follows:

	2018	2017
Spanish Public Debt	-	-
Other fixed income securities	-	2,137
	-	2,137

The average annual return on the Debt securities of the insurance business in 2017 was 9.58%.

c) Equity instruments

Equity instruments on the asset side of the consolidated balance sheet as at 31 December 2017 relates to shares in mutual funds managed by the Group.

(Expressed in thousands of euros)

25. Financial assets at fair value with changes in other comprehensive income

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
Equity instruments	120,860	223,912
Holdings in Spanish entities	35,198	47,686
Equity investments in foreign entities	25,817	33,090
Shares in Investment Funds (**)	-	76,359
Shares in venture capital companies (**)	56,408	63,340
Assets related to the Development and Education Fund	3,437	3,437
Debt securities	1,015,155	4,857,282
Spanish Public Debt	336,203	4,003,606
Treasury Bills	-	-
Government bonds and debentures	336,203	4,003,606
Other recorded debts	-	-
Other Spanish Public Administrations debt	34,974	39,278
Foreign public debt	556,427	25,370
Issued by credit institutions	57,239	258,548
Residents	22,483	25,288
Non-resident sectors	34,756	233,260
Other fixed income securities	30,312	524,823
Issued by other resident sectors	16,941	20,731
Issued by other non-resident sectors	13,371	504,092
Doubtful assets	17,632	16,626
Value adjustments due to asset impairment	(17,632)	(10,969)
Microhedge transactions	-	-
	1,136,015	5,081,194

(*) Corresponds to balances classified under "Available-for-sale financial assets" (See Note 2.3).

(**) As at 31 December 2017, 4,865 thousand euros related to investment funds managed by the Group. On 1 January 2018, all the holdings in investment funds and certain venture capital funds were reclassified to "Non-trading financial assets mandatorily measured at fair value through profit or loss" due to non-compliance with the SPPI test (Notes 2.3 and 27)

As at 1 January and 31 December 2018, most of the references in this portfolio were classified as Stage 1, with Stage 3 amounting to 17 million euros and 18 million euros, respectively.

On 18 December 2018, MONDRAGON Inversiones, S.P.E., S.Coop. and the Parent Company agreed to sell 7,919 shares of MONDRAGON Promoción Empresarial, S.A. (the company created by the merger in 2018 of MONDRAGON Promoción Empresarial, S.A. and MONDRAGON Innovación, S.A.), with a net book value of 3,943 thousand euros. Therefore, as at 31 December 2017, the "Equity instruments" heading included 3,943 thousand euros relating to holdings in companies for which the Parent Company had agreed to sell them on a specified date and at a price equivalent to acquisition cost plus a yield linked to the Euribor.

The quantifiable fair value of the items included under "Financial assets at fair value with changes in other comprehensive income" as at 31 December 2018 and 2017, as well as the valuation techniques used, are included in Note 42.

Note 40 provides a breakdown of the balance of the heading "Other accumulated comprehensive income" in consolidated equity as at 31 December 2018 and 2017 arising from the changes in the fair value of the items included under the heading "Financial assets at fair value with changes in other comprehensive income".

(Expressed in thousands of euros)

In the years ended 31 December 2018 and 2017, the amount derecognised from "Accumulated other comprehensive income" in Equity and recognised in the consolidated profit and loss account on the sale of financial instruments classified as Financial assets at fair value through profit or loss with changes in other comprehensive income amounted to 17,947 thousand euros and 31,668 thousand euros, respectively, both net of their tax effect (see Note 40).

Furthermore, in the 2018 financial year, "Accumulated other comprehensive income - Items that will not be reclassified in profit or loss" was derecognised in Equity as a result of the sale of variable income financial instruments classified in the "Financial assets at fair value with changes in other comprehensive income" portfolio, with a net tax effect of 484 thousand euros.

During 2017, the Parent Entity made significant purchases of debt issued by the Italian State and other Government Authorities, which increased its exposure to this type of instrument by approximately 410 million euros.

The breakdown, by currency and maturity, of "Financial assets at fair value with changes in other comprehensive income" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
By currency:		
In euros	1,108,052	5,045,095
In US dollars	24,413	32,637
In pounds sterling	2,965	2,909
In Swiss francs	585	553
Other	-	-
	1,136,015	5,081,194
By maturity:		
Up to 1 month	1,324	92,006
Between 1 month and 3 months	14,065	12,807
Between 3 months and 1 year	60,538	767,544
Between 1 and 5 years	790,055	2,982,085
More than 5 years	149,435	1,013,809
No set maturity	138,230	223,912
Value adjustments due to asset impairment	(17,632)	(10,969)
	1,136,015	5,081,194

(*) Corresponds to balances classified under "Available-for-sale financial assets" (See Note 2.3).

The changes in "Financial assets at fair value with changes in other comprehensive income" in 2018 and 2017 are shown below:

	2018	2017
Balance at close of previous year	5,081,194	5,048,900
Impact of the first application of IFRS 9 (Note 2.3)	(3,976,924)	-
Balance at beginning of the year	1,104,270	5,048,900
Net additions/decreases	83,985	21,816
Changes in fair value	(45,604)	12,370
Net impairment losses recognised in profit or loss (Note 63)	(6,636)	(1,892)
Other	-	-
Balance at the close of the year	1,136,015	5,081,194

(*) Corresponds to balances classified under "Available-for-sale financial assets" (See Note 2.3).

The average annual interest rate on the debt securities in the banking business in 2018 and 2017 was 0.762% and 1.211%, respectively. The average annual yield in 2018 and 2017 on debt securities in the insurance business was 2.33% and 2.68%, respectively.

As at 31 December 2017, the "Debt Instruments - Issued by non-resident credit institutions" heading included four issues for a total amount of 109 million euros, with maturities in 2018, the yield on which is linked to interest rate parameters that have been limited with ceiling and floor caps.

The Group also held other subordinated debt instruments amounting to 445 thousand euros in the financial asset portfolio at fair value with changes in other comprehensive income as at 31 December 2018 (466 thousand euros as at 31 December 2017).

As at 31 December 2018 and 2017, the Parent Entity had subscribed shares in the share capital of certain unlisted companies for which there are unpaid disbursements not required amounting to 30 and 397 thousand euros, respectively.

As at 31 December 2017, the Parent Company had a cash flow hedge on certain fixed-income issues included in the "Available-for-sale financial assets" portfolio for a nominal amount of 1,219,382 thousand euros. This hedge was achieved by arranging OTC swaps (Eurozone inflation rate interest) with credit institutions, the fair value of which as at 31 December 2017 amounted to (138,953) thousand euros. On 1 January 2018, these issues were reclassified to "Financial assets at fair value with changes in other comprehensive income" due to a change in name arising from the application of IFRS 9 (see Note 2.3.). In 2018, the Parent Company sold issues for a nominal value of 410,000 thousand euros, giving rise to gross capital gains of 25,948 thousand euros, which were recorded under the heading "Profits and (-) losses on the derecognition of financial assets and liabilities not measured at fair value with changes in profit or loss, net" in the profit and loss account for 2018 (Note 51). At the same time, the Parent Company disposed of the swap hedge, recording a gross loss of 15,983 thousand euros, which was recorded under the heading "Profits and (-) losses resulting from hedge accounting, net" in the profit and loss account for 2018 (Note 54).

Based on the above, as at 31 December 2018 the Parent Company held a cash flow hedge on certain fixed-income issues included in the portfolio "Financial assets at fair value with changes in other comprehensive income" for a nominal amount of 3,166,973 thousand euros. This hedge was arranged through OTC swaps (Eurozone inflation rate interest) with credit institutions, the fair value of which as at 31 December 2018 was (22,636) thousand euros.

As at 31 December 2018 and 2017, the Parent Company held fair value hedges on certain fixed-income issues included in the portfolio of "Financial assets at fair value with changes in other comprehensive income" as at 31 December 2018 and in the portfolio of "Available-for-sale financial assets" as at 31 December 2017 for a nominal amount of 275,000 and 225,000 thousand euros, respectively. This hedge was achieved by arranging OTC interest rate swaps with credit institutions, the fair value of which as at 31 December 2018 and 2017 amounted to (45,124) and (50,299) thousand euros, respectively.

(Expressed in thousands of euros)

a) Credit risk

Risk concentration by geographical sector in the debt securities portfolio is as follows:

	2018		2017 (*)	
	Amount	%	Amount	%
Spain	428,233	41.46%	4,104,976	84.32%
Other European Union countries	597,972	57.90%	758,313	15.58%
Rest of Europe	-	-	-	-
Rest of the world	6,582	0.64%	4,962	0.10%
	1,032,787	100.00%	4,868,251	100.00%
Value adjustments due to asset impairment	(17,632)		(10,969)	
	1,015,155		4,857,282	

(*) Corresponds to balances classified under "Available-for-sale financial assets" (see Note 2.3.)

A breakdown of debt securities based on external credit ratings assigned by the main rating agencies is as follows:

	2018		2017 (*)	
	Amount	%	Amount	%
Risks rated A	441,575	43.50%	150,946	3.11%
Risks rated B	572,056	56.35%	4,700,109	96.76%
Risks rated C	-	-	-	-
Unrated doubtful assets	-	-	5,841	0.12%
Amounts not assigned	1,524	0.15%	386	0.01%
	1,015,155	100.00%	4,857,282	100.00%

(*) Corresponds to balances classified under "Available-for-sale financial assets" (see Note 2.3.).

Due mainly to the expectation of the recovery of future cash flows from certain financial assets, the performance of stock markets, the liquidity situation of certain fixed-income issues and the increase in spreads due to credit risk, the Group considered certain debt instruments included in the portfolio of financial assets at fair value with changes in other comprehensive income to be impaired.

b) Impairment losses

The breakdown of the balance of "Impairment or (-) reversal of impairment of financial assets not measured at fair value with changes in profit or loss or (-) net gains on amendment - Financial assets at fair value with changes in other comprehensive income" in the consolidated profit and loss accounts for the years ended 31 December 2018 and 2017 is as follows (Note 63):

	2018	2017 (*)
Debt securities	6,636	1,263
Equity instruments	-	629
	6,636	1,892
Appropriations charged to income		
Determined individually	6,680	3,001
Determined collectively	-	(265)
Appropriations recovered taken to income	(44)	(844)
	6,636	1,892

(*) Corresponds to the impairment of balances classified in the "Available-for-sale financial assets" heading (see Note 2.3).

(Expressed in thousands of euros)

The changes in 2018 and 2017 in the balance of Impairment losses on assets under "Financial assets at fair value with changes in other comprehensive income - Debt instruments" were as follows:

	2018	2017 (*)
Balance at beginning of the year	10,969	9,706
Net appropriations/(Recoveries) charged/(credited) to the income statement	6,636	1,263
Transfer to write-offs against set-up funds	-	-
Other movements	27	-
	17,632	10,969

(*) Corresponds to the impairment of balances classified in the "Available-for-sale financial assets" heading (see Note 2.3).

The breakdown, by determination criteria, of the balance of Impairment losses on assets under "Financial assets at fair value with changes in other comprehensive income" as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
By manner of determination:		
Determined individually	17,632	10,951
Determined collectively	-	18
	17,632	10,969

(*) Corresponds to the impairment of balances classified in the "Available-for-sale financial assets" heading (see Note 2.3).

26. Financial assets at amortized cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
Debt securities	5,542,505	461,297
Loans and advances	13,456,354	13,746,458
Credit institutions	203,631	342,130
Customers	13,252,723	13,404,328
	18,998,859	14,207,755

(*) This relates to balances classified under "Held-to-maturity investments" and "Loans and receivables" (see Note 2.3).

(Expressed in thousands of euros)

The breakdown by currency and maturity of "Financial assets measured at amortised cost" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
By currency:		
In euros	19,261,894	14,531,197
In dollars	13,350	13,798
In pounds sterling	7	111
In Japanese yen	45	58
In Swiss francs	48	53
Other	60	-
Valuation adjustments	(276,545)	(337,462)
	18,998,859	14,207,755
By maturity:		
On demand	160,018	421,628
Up to 1 month	131,468	103,449
Between 1 month and 3 months	51,656	50,826
Between 3 months and 1 year	1,230,779	195,856
Between 1 and 5 years	2,597,578	1,395,133
More than 5 years	14,435,670	11,801,181
No set maturity	668,235	577,144
Valuation adjustments	(276,545)	(337,462)
	18,998,859	14,207,755

(*) This relates to balances classified under "Held-to-maturity investments" and "Loans and receivables" (see Note 2.3).

a) Debt securities

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
Bonds and debentures:	5,435,445	416,082
Spanish Public Debt	5,293,430	363,199
Foreign public debt	13,340	12,982
French public debt	1,030	1,031
German public debt	4,515	4,539
Dutch public debt	765	781
Belgian Public Debt	7,030	6,631
Issued by credit institutions	127,636	38,862
Residents	1,323	1,321
Non-residents	126,313	37,541
Issued by Other sectors	1,039	1,039
Residents	-	-
Non-residents	1,039	1,039
Promissory notes and other fixed-income issues:	25,055	-
Issued by Other sectors	25,055	-
Residents	25,055	-
Non-residents	-	-
Value adjustments due to asset impairment	(543)	(543)
Micro-hedging	82,548	45,758
	5,542,505	461,297

(*) This relates to balances classified under "Held-to-maturity investments" and "Loans and receivables - debt securities" (see Note 2.3).

(Expressed in thousands of euros)

As at 1 January and 31 December 2018 all references in this portfolio are classified as Stage 1.

The breakdown by currency, maturity and rating, of the "Financial assets at amortised cost - Debt instruments" heading in the consolidated balance sheets as at 31 December 2018 and 2017, is as follows:

	2018	2017 (*)
By currency:		
In Euro	5,542,505	461,297
	5,542,505	461,297
By maturity:		
Up to 1 year	997,260	7,318
Between 1 and 5 years	1,352,197	48,726
More than 5 years	3,110,500	359,495
Valuation adjustments	82,548	45,758
	5,542,505	461,297
By ratings:		
Risks classified as Rating A	5,482,718	17,606
Risks classified as Rating B	34,732	443,691
Amounts not assigned	25,055	-
	5,542,505	461,297

(*) This relates to balances classified under "Held-to-maturity investments" and "Loans and receivables - debt securities" (see Note 2.3).

The changes in 2018 and 2017 in "Financial assets at amortised cost - Debt instruments" are shown below:

	2018	2017 (*)
Balance at close of previous year	461,297	488,814
Impact of the first application of IFRS 9 (Note 2.3)	3,782,064	-
Balance at beginning of the year	4,243,361	488,814
Additions due to purchases	2,026,947	2,485
Amortisation	(724,524)	(21,040)
Microhedge transactions	36,790	(9,381)
Collected interests	(91,414)	(15,056)
Apportionment of interest	51,345	15,475
Impairment losses (Note 63)	-	-
Balance at the close of the year	5,542,505	461,297

(*) This relates to balances classified under "Held-to-maturity investments" and "Loans and receivables - debt securities" (see Note 2.3).

The average annual interest rate in 2018 and 2017 for the "Financial assets at amortised cost - Debt instruments" heading in the banking business amounted to 1.851% and 2.023%, respectively. The average annual return in 2018 and 2017 on the "Financial assets at amortised cost - Debt instruments" heading of the insurance business was 3.53% and 3.63%, respectively.

The carrying value shown in the above tables represents the maximum credit risk exposure with respect to the financial instruments indicated.

(Expressed in thousands of euros)

The quantifiable fair value of the items included under "Financial assets at amortised cost - Debt instruments" as at 31 December 2018 and 2017 and the valuation techniques used are included in Note 42.

During 2018, the Parent Company has purchased government debt for a nominal amount of 1,982 million euros. In addition, during 2018 the parent company redeemed issues at maturity for a nominal amount of 724 million euros, of which 600 million relate to bonds issued by the state and 100 million relate to issues by non-resident credit institutions.

As at 31 December 2018 and 2017, the Parent Company maintains a fair value hedge on Government bonds included in the portfolio of "Financial assets at amortised cost" / held-to-maturity investment for a nominal amount of 200,000 thousand euros. This hedge was arranged through OTC interest rate swaps with non-resident credit institutions, the fair value of which as at 31 December 2018 and 2017 amounted to 46,055 thousand euros and 49,364 thousand euros, respectively.

b) Loans and advances

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
Loans and advances		
Credit institutions	203,631	342,130
Customers	13,252,723	13,404,328
	13,456,354	13,746,458

(b) Corresponds to balances classified under "Loans and receivables" (See Note 2.3).

Concerning the breakdown of "Financial assets at amortised cost - Loans and advances - Customers" according to the assigned credit ratings, internal or external, as well as in relation to the default rates of these investments, as detailed in the note on Credit Risk, the Parent Company has developed internal scoring and rating models that qualify customers (rating) or operations (scoring) according to their level of risk, with the aim of improving risk management, as well as accessing the validation of these internal models for the calculation of regulatory capital in accordance with Basel requirements.

(Expressed in thousands of euros)

At the close of the 2018 and 2017 financial years, the Parent Entity had information on the scoring models for mortgage and consumer transactions for private individuals, as well as that concerning the rating model for SMEs. However, in order to provide complete information on the risk levels of the Group's investment, it was decided to include a breakdown of Financial assets at amortised cost - Loans and advances according to their credit quality for 31 December 2018 and 2017:

	2018		
	Gross amount	Impairment adjustments	Carrying amount
Stage 1 (normal)	12,908,714	25,042	12,883,672
Stage 2 (special surveillance)	292,884	37,398	255,486
Stage 3 (doubtful)	608,750	291,554	317,196
TOTAL	**13,810,348**	**353,994**	**13,456,354**

	2017 (*)		
	Gross amount	Impairment adjustments	Carrying amount
Stage 1 (normal)	13,154,728	25,759	13,128,969
Stage 2 (special surveillance)	292,194	55,717	236,477
Stage 3 (doubtful)	686,977	305,965	381,012
TOTAL	**14,133,899**	**387,441**	**13,746,458**

(b) Corresponds to balances classified under "Loans and receivables" (See Note 2.3).

The Parent Company's non-performing loans rate is shown below, calculated as the relationship between the balances classified as doubtful for accounting purposes and the balance of Loans and advances - Customers, excluding valuation adjustments:

2018	2017	2016
4.48%	4.98%	5.71%

b.1) Loans and advances - Credit institutions

The breakdown of this consolidated balance sheet heading by type of instrument is as follows:

	2018	2017 (*)
Fixed-term deposits	70,072	90,209
Reverse repurchase agreements	-	-
Other accounts	131,991	251,852
Valuation adjustments		
Value adjustments due to asset impairment	-	-
Other	1,568	69
	203,631	342,130

(b) Corresponds to balances classified under "Loans and receivables" (See Note 2.3).

Average annual interest rates on loans and advances to credit institutions for 2018 and 2017 were 3.521% and 1.703% respectively.

As at 1 January and 31 December 2018 all references in this portfolio are classified as Stage 1.

(Expressed in thousands of euros)

b.2) Loans and advances - Clients

The breakdown, by various criteria, of the balance of "Financial assets at amortised cost - Loans and advances" as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
By type and situation:		
Spanish Government Bodies	194,145	329,137
Commercial loans	304,030	329,288
Loans secured by mortgage guarantee	10,381,228	10,539,618
Loans secured by other real property guarantees	38,888	43,212
Other term loans	1,589,305	1,456,910
Finance leases	195,946	194,535
Demand loans and other	243,008	117,825
Reverse repurchase agreements with counterparty entities	-	-
Doubtful assets	608,750	686,977
Other financial assets	57,541	91,356
Valuation adjustments	(360,118)	(384,530)
Interest accrued	8,830	10,106
Value adjustments for asset impairment	(353,994)	(387,441)
Fees	(14,954)	(7,195)
	13,252,723	13,404,328
By sector of activity of borrower:		
Spanish Government Bodies	199,449	336,488
Other resident sectors:	13,333,357	13,334,947
Agriculture, farming, hunting, forestry and fisheries	72,409	61,907
Industries	770,963	760,965
Construction	246,135	294,930
Services	1,342,044	1,257,708
Commerce and hotel and catering	672,499	679,415
Transport and communications	194,501	195,321
Other services	475,044	382,972
Loans to individuals:	10,599,224	10,687,076
Homes	9,588,997	9,690,959
Consumer and other	1,010,227	996,117
Not classified	303,382	272,361
Valuation adjustments	(360,118)	(384,530)
Other non-resident sectors	40,668	32,538
Other financial assets	38,567	84,885
Reverse repurchase agreements with counterparty entities	-	-
	13,252,723	13,404,328
By geographical area:		
- Bizkaia	3,640,761	3,719,930
- Gipuzkoa	3,295,610	3,255,634
- Araba	1,457,689	1,489,372
- Navarra	1,513,228	1,564,390
- Expansion network	3,705,553	3,759,532
Unclassified	-	-
Valuation adjustments	(360,118)	(384,530)
	13,252,723	13,404,328
Owing to interest rate applied		
Fixed interest rate	1,745,491	1,530,046
Variable interest rate linked to Euribor	11,337,902	11,686,724
Variable interest rate linked to CECA	-	-
Variable interest rate linked to IRHH	218,343	247,017
Other	311,105	325,071
Valuation adjustments	(360,118)	(384,530)
	13,252,723	13,404,328

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

(Expressed in thousands of euros)

The breakdown, by currency and maturity, of the balance of "Financial assets at amortised cost - Loans and advances" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
By currency:		
In euros	13,599,331	13,774,495
In US dollars	13,350	14,045
In pounds sterling	7	109
In Japanese yen	45	156
In Swiss francs	48	53
Other	60	-
Valuation adjustments	(360,118)	(384,530)
	13,252,723	13,404,328
By maturity:		
On demand	134,963	220,724
Up to 1 month	111,396	103,449
Between 1 month and 3 months	92,285	50,826
Between 3 months and 1 year	167,945	168,466
Between 1 and 5 years	1,250,044	1,276,336
More than 5 years	11,319,964	11,441,142
No set maturity	536,244	527,915
Valuation adjustments	(360,118)	(384,530)
	13,252,723	13,404,328

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

As at 31 December 2018 and 2017, the Group has not recorded subordinated loans, under said heading.

The changes in 2018 and 2017 in the gross amount of the balance of "Financial assets at amortised cost - Loans and advances" by risk classification are as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at close of previous year (*)	13,154,728	292,194	686,977	14,133,899
Effect of the first application of IFRS 9 (Note 2.3) (**)	-	-	3,871	3,871
Balance at beginning of the year	13,154,728	292,194	690,848	14,137,770
Net Concessions/(Amortisations)	(179,668)	(18,733)	(44,413)	(242,814)
Transfers between gross balances	(65,639)	19,546	46,093	-
Transfer to non-current assets for sale	-	-	(31,765)	(31,765)
Transfer to failures	(707)	(123)	(52,013)	(52,843)
Balance at the close of 2018	12,908,714	292,884	608,750	13,810,348

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

(**) Corresponds to the recognition of interest on doubtful assets amounting to 3,871 thousand euros in accordance with the application of IFRS 9 (Note 2.3), which were recognised 100% on 1 January 2018.

(Expressed in thousands of euros)

At 31 December 2018 and 2017 the Group has finance leases with customers for property, plant and equipment which are recorded as described in Note 13.m). The residual value of these contracts, which corresponds to the amount of the last lease instalment, is secured by the asset forming the object of the lease. At 31 December 2018 and 2017 the investment outstanding and residual values by type of asset financed are as follows:

Principal	**2018**	**2017 (*)**
Capital goods	44,817	39,215
Computer hardware	910	905
Materials and transport vehicles	62,490	58,809
Cars	22,759	23,371
Other assets	9,517	8,875
Total moveable property	140,493	131,175
Property Assets	35,403	43,588
TOTAL	175,896	174,763

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

Residual value	**2018**	**2017 (*)**
Capital goods	1,451	1,326
Computer hardware	39	38
Materials and transport vehicles	6,267	6,263
Cars	11,946	11,959
Other assets	382	519
Total moveable property	20,085	20,105
Property Assets	4,397	5,502
TOTAL	24,482	25,607

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

Of these balances, a total of 4,432 thousand euros as at 31 December 2018 and 5,835 thousand euros as at 31 December 2017, relate to impaired assets included under Doubtful assets.

A breakdown of securitisation and other asset transfers by the Parent Entity at 31 December 2018 and 2017 is as follows:

	2018	**2017 (*)**
Written off the balance sheets in their entirety:	-	-
Mortgage assets securitised through mortgage bond holdings	-	-
Memorandum item: Written off the balance sheet:		
before 1 January 2004	-	-
Carried in the balance sheet in their entirety:	550,340	608,118
Mortgage assets securitised through transfer certificates		
Mortgage	550,340	608,118
Other securitised assets	-	-
	550,340	608,118

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

(Expressed in thousands of euros)

In previous years, the Group carried out a number of asset securitisation schemes transferring assets comprising mortgage and corporate loans to the securitisation funds "I.M. Caja Laboral 1, F.T.A. " and "I.M. Caja Laboral 2, F.T.A. " for an amount of 900,000 and 600,000 thousand euros, respectively. These asset transfers did not meet the requirements laid down by the International Financial Reporting Standards for the derecognition of the transferred assets, since the Parent Entity retains the risks and rewards associated with ownership of the assets and also maintains control over them. As a result, a liability associated with the net assets transferred to the above-mentioned funds has been recognised (Note 36).

The outstanding balance of these assets as at 31 December 2018 amounted to 550,340 thousand euros (608,118 thousand euros as at 31 December 2017). It is worth mentioning that the Parent Company has subscribed all the securitisation bonds of the fund "I.M. Caja Laboral 2, F.T.A.". The Entity intends to use these assets as collateral to secure Eurosystem credit transactions.

Additionally, as at 31 December 2018, the Parent Entity has granted subordinated loans to the aforementioned Asset Securitisation Funds amounting to 26,237 thousand euros (27,021 thousand euros as at 31 December 2017).

c) Impairment losses

The breakdown of the balance under the heading "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss (-) or net gains due to changes - Financial assets at amortised cost - Loans and advances" in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 (Note 63) is as follows:

	2018	**2017 (*)**
Loans	5,632	11,923
Allocations	126,787	118,524
Doubtful loans recovered	(4,178)	(6,523)
Other loans recovered	(116,977)	(100,078)
	5,632	11,923
Appropriations charged to income	126,787	118,524
Determined individually	54,341	45,594
Determined collectively	72,446	72,930
Appropriations recovered taken to income	(116,977)	(100,078)
Suspense account items recovered	(4,178)	(6,523)
	5,632	11,923

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

(Expressed in thousands of euros)

The details as at 31 December 2018 and 2017 of the balance of Corrections for impairment of assets under "Financial assets at amortised cost - Loans and advances" are as follows:

	2018	2017 (*)
By type of cover:		
Specific cover	291,554	305,965
Generic cover	62,440	81,476
	353,994	387,441
By manner of determination:		
Determined individually	138,506	144,362
Determined collectively	215,488	243,079
	353,994	387,441
By counter-party:		
Other resident sectors	352,883	387,159
Other non-resident sectors	1,111	282
	353,994	387,441

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

As at 31 December 2018, the balance of generic hedges includes 37,398 thousand euros for the value adjustment of the transactions classified as normal risk under special surveillance amounting to 292,884 thousand euros (55,717 and 292,194 thousand euros, respectively, as at 31 December 2017).

The changes in 2018 and 2017 in the balance of Corrections for impairment of assets under "Financial assets at amortised cost - Loans and advances" were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of 2016	25,806	53,777	365,792	445,375
Net appropriations against income	(301)	2,153	16,594	18,446
Transfer to write-offs against set-up funds	-	-	(67,474)	(67,474)
Transfer between value adjustments	-	-	-	-
Other	41	-	(8,947)	(8,906)
Balance at the close of 2017 (*)	25,546	55,930	305,965	387,441
Impact of the first application of IFRS 9 (Note 2.3) (**)	(1,468)	3,090	12,409	14,031
Balance as at 1 January 2018	24,078	59,020	318,374	401,472
Net appropriations against income	164	(21,622)	30,804	9,346
Transfer to write-offs against set-up funds	-	-	(48,757)	(48,757)
Transfer between value adjustments	-	-	-	-
Other	800	-	(8,867)	(8,067)
Balance at the close of 2018	25,042	37,398	291,554	353,994

(*) Corresponds to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (Note 2.3).

(**) Includes an impairment adjustment of 3,871 thousand euros relating to the recognition of interest assets relating to doubtful assets in accordance with the application of IFRS 9 (Note 2.3), which have been recognised 100%.

(Expressed in thousands of euros)

In 2018 and 2017 "Other" includes mainly the reclassification of the specific hedge of the financing granted to real estate special purpose vehicles to " Non-current assets and disposal groups of items classified as held for sale" amounting to 9,039 thousand euros and 10,921 thousand euros, respectively (Note 35).

As at 31 December 2018 and 2017, the accumulated finance income not recognised in the consolidated profit and loss account of impaired financial assets amounted to 63,806 thousand euros and 76,696 thousand euros, respectively.

Set out below is a breakdown of the carrying value of impaired assets, without deduction of value adjustments for impairment:

	2018	2017
By geographical area:		
- Bizkaia	128,878	177,131
- Gipuzkoa	187,668	164,059
- Araba	43,194	55,190
- Navarra	75,313	81,213
- Expansion network	173,697	209,384
Unclassified	-	-
	608,750	686,977
By counter-party:		
Spanish Government Bodies	6,919	7,144
Other resident sectors	600,734	679,632
Other non-resident sectors	1,097	201
	608,750	686,977
By type of instrument:		
Commercial loans	12,215	12,428
Loans and credits	573,358	647,137
Finance leases	8,299	12,517
Other	14,878	14,895
	608,750	686,977

The breakdown of the age of the amounts classified as impaired is as follows:

	2018	2017
Up to 6 months	274,690	253,425
Over 6 months without exceeding 9 months	33,077	42,163
Over 9 months without exceeding 12 months	25,000	32,916
Over 12 months without exceeding 15 months	16,762	22,158
Over 15 months without exceeding 18 months	15,136	21,940
Over 18 months without exceeding 21 months	16,625	14,547
Over 21 months	227,460	299,828
	608,750	686,977

(Expressed in thousands of euros)

A breakdown is provided below at 31 December 2018 and 2017 of balances under loans and receivables written off the consolidated Group balance sheet based on the view that the possibilities of their recovery are remote:

	2018	2017
Financial assets at amortised cost - Loans and advances - Customers	534,630	499,294
	534,630	499,294

The movement in impaired financial assets written off because recovery is considered remote is as follows:

	2018	2017
Balance at beginning of the year	499,294	460,167
Additions:	52,843	75,591
Value adjustment for asset impairment	52,843	75,591
Recoveries:	(4,178)	(6,523)
Due to collection in cash of principal	(4,178)	(6,523)
Definitive write-offs:	(13,329)	(29,941)
Condoned	(13,329)	(29,941)
Balance at year end	534,630	499,294

27. Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Equity instruments	51,224	
Shares in collective investment undertakings (*)	51,224	
Debt securities	10,912	
	62,136	

(*) As at 31 December 2018, 3,071 thousand euros relate to investment funds managed by the Group. As at 31 December 2017, all investments in collective investment undertakings were classified under "Available-for-sale financial assets" and "Financial assets designated at fair value through profit or loss" (Note 2.3).

The fair value of the items included under "Financial assets not intended for trading mandatorily measured at fair value through profit or loss" as at 31 December 2018 and 2017, and the valuation techniques used, are included in Note 42.

(Expressed in thousands of euros)

The effect on the consolidated profit and loss accounts for the years ended 31 December 2018 and 2017 arising from changes in the fair value of items classified as "Financial assets not held for trading and mandatorily measured at fair value through profit or loss" is as follows:

	Gains		Losses	
	2018	2017	2018	2017
Equity instruments	7,552		(10,859)	
Debt securities	524		(855)	
	8,076		(11,714)	

The details, based on the criteria used to determine the fair value of the effect on the consolidated profit and loss account for the years ended 31 December 2018 and 2017 arising from changes in the fair value of the items in the "Financial assets not held for trading mandatorily measured at fair value through profit or loss" portfolio are as follows:

	Gains		Losses	
	2018	2017	2018	2017
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	7,281	-	(10,492)	-
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	-	-	(226)	-
Data not supplied by the market (Level 3)	795	-	(996)	-
	8,076	-	(11,714)	-

The breakdown by currencies and maturities of the balances included in "Financial assets not held for trading mandatorily measured at fair value through profit or loss" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
By currency:		
In euros	53,310	
In US dollars	8,826	
	62,136	
By maturity:		
Up to 1 month	-	
Between 1 month and 3 months	-	
Between 3 months and 1 year	-	
Between 1 and 5 years	-	
More than 5 years	10,912	
No set maturity	51,224	
	62,136	

(Expressed in thousands of euros)

Set out below is an analysis of credit risk concentrations by the geographical sector in which the risk is located, counter-party categories, and instrument types, indicating book value at the dates in question:

	2018		2017	
	Amount	%	Amount	%
By geographical sector:				
Spain	40,701	65.50%		
Other European Union countries	3,610	5.81%		
Rest of the world	17,825	28.69%		
	62,136	100.00%		
By counter-party categories:				
Credit institutions	44,167	71.08%		
Resident Public Administrations	-	-		
Other resident sectors	5,534	8.91%		
Other non-resident sectors	12,435	20.01%		
	62,136	100.00%		
By instrument types:				
Listed bonds and debentures	1,912	3.08%		
Other fixed income securities	9,000	14.48%		
Derivatives not traded on organised markets	-	-		
Shares in collective investment undertakings	51,224	82.44%		
Listed shares	-	-		
	62,136	100.00%		

The breakdown of "Financial assets not held for trading mandatorily measured at fair value through profit or loss" according to the external credit ratings granted by the main rating agencies is as follows:

	2018		2017	
	Amount	%	Amount	%
Risks rated A	9,000	14.48%		
Risks rated B	1,912	3.08%		
Amounts not assigned	51,224	82.44%		
	62,136	100.00%		

28. Derivatives - asset and liability hedge accounting

The breakdown of these items in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Micro-hedges:	148,906	143,642	158,166	238,838
Fair value hedges	104,998	143,642	91,622	99,885
Cash flow hedges	43,908	-	66,544	138,953
	148,906	143,642	158,166	238,838

(Expressed in thousands of euros)

The breakdown, by currency and maturity, of the heading "Derivatives - hedge accounting" in assets and liabilities in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
By currency:				
In euros	148,906	143,642	158,166	238,838
	148,906	143,642	158,166	238,838
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	-	-	-	-
Between 3 months and 1 year	4,200	-	19,681	-
Between 1 and 5 years	111,713	141,205	12,447	102,624
More than 5 years	32,993	2,437	126,038	136,214
	148,906	143,642	158,166	238,838

The breakdown of the balance of the heading "Derivatives - hedge accounting" of assets and liabilities of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018		
	value Notional	Fair Value	
		Assets	Liabilities
Other interest rate operations			
Financial swaps	4,780,352	148,906	158,166
Other share operations			
Financial swaps	-	-	-
		148,906	158,166

	2017		
	value Notional	Fair Value	
		Assets	Liabilities
Other interest rate operations			
Financial swaps	2,783,600	143,642	238,838
Other share operations			
Financial swaps	-	-	-
		143,642	238,838

The notional and/ or contractual amount of asset and liability derivatives - hedge accounting does not represent the risk assumed by the Group since its net position is obtained from the offset and / or combination of such instruments

The characteristics of the main hedges held by the Group as at 31 December 2018 and their variations with respect to December 2017 are described below:

Fair value hedges:

- Micro-hedges of the risk of changes in fair value as a result of changes in the risk-free interest rate of a series of public debt instruments considered individually and classified in the "Financial assets at fair value with changes in other comprehensive income" and "Financial assets at amortised cost" portfolios, through these hedges the exposure to the fixed interest rate is exchanged for an exposure to the variable interest rate.

(Expressed in thousands of euros)

As at 31 December 2018 and 2017, these debt instruments (hedged items) had a face value of 475,000 and 425,000 thousand euros, respectively (see Notes 25 and 27).

- Micro-hedges of the risk of changes in fair value as a result of changes in the risk-free interest rate of a series of financing instruments (mortgage bonds) individually considered and classified as "Financial liabilities at amortised cost", through which exposure to fixed interest rates is exchanged for exposure to floating interest rates.

  As at 31 December 2018 and 2017, these financial liabilities at amortised cost (hedged items) had a nominal value of 1,125,000 thousand euros, in both cases (Note 36). During the year, no new hedges were created on financing instruments individually considered and classified as "Financial liabilities at amortised cost".

Cash flow hedges:

- Micro-hedges of the risk of changes in cash flows due to inflation on certain bonds in the "Financial assets at fair value with changes in other comprehensive income" portfolio, which at 31 December 2017 were classified in the "Available-for-sale financial assets" portfolio (Note 2.3). The coupon on these bonds is linked to inflation in the Eurozone. The financial products used to hedge this exchange rate are swaps for a notional amount of 3,166,973 and 1,219,382 thousand euros as at 31 December 2018 and 2017, respectively. During the financial year, micro-hedges on current and future inflation were recorded for a total notional amount of 2,357,591 thousand euros.

29. Investments in joint ventures and associates

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Jointly-controlled entities:		
Net value	-	-
Cost	-	-
Value adjustments due to asset impairment	-	-
Associates:		
Net value	2,845	3,088
Cost	2,845	3,088
Value adjustments due to asset impairment	-	-
	2,845	3,088

Movements during 2018 and 2017 in the balance of "Investments in joint ventures and associates" are as follows:

	2018	2017
Balance at beginning of the year	3,088	3,042
Acquisitions	-	-
Disposals due to sale	-	-
Disposals due to capital redemption	-	-
Profit sharing (Note 48)	(168)	47
Provision for impairment (Note 64)	-	-
Share of valuation gains/(losses)	-	-
Dividend payment	-	-
Other	(75)	(1)
Balance at year end	2,845	3,088

Appendix I includes significant information on shareholdings in Jointly-controlled entities and Associates and Subsidiaries which have been consolidated under the full consolidation method at 31 December 2018 and 2017.

(Expressed in thousands of euros)

30. Assets under insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Technical provision for unconsumed premiums	11,983	11,540
Life insurance technical reserves	958	981
Technical reserves for claims	16,762	13,798
Credits for reinsurance operations	692	920
	30,395	27,239

31. Tangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Property, plant and equipment	271,364	277,201
For own use:	256,433	263,773
Data processing equipment and installations	5,217	5,878
Furnishings, vehicles and other installations	34,447	33,097
Buildings	252,863	263,065
Work in progress	-	1,244
Other	-	2
Impairment adjustments	(36,094)	(39,513)
Leased out under operating leases	14,931	12,699
Associated with Community Projects	-	729
Furniture and installations	-	3
Buildings	-	726
Investment properties	50,391	51,754
Buildings	59,092	61,119
Rural properties, land and plots	1,349	1,349
Impairment adjustments	(10,050)	(10,714)
	321,755	328,955

(Expressed in thousands of euros)

The movement in 2018 and 2017 in the balance of the "Tangible assets" heading is as follows:

	For own use	Leased out under operating leases	Associated with Community Projects	Investment properties	Total
Gross					
Balance as at 01 January 2017	563,345	19,608	2,135	82,591	667,679
Additions	12,765	11,586	-	-	24,351
Withdrawals	(50,039)	(10,851)	-	(4,282)	(65,172)
Transfers	673	-	-	(673)	-
Transfers to non-current assets for sale	(16)	-	-	(601)	(617)
Balance as at 31 December 2017	526,728	20,343	2,135	77,035	626,241
Additions	12,159	8,956	-	-	21,115
Withdrawals	(11,778)	(4,646)	(2,135)	(4,929)	(23,488)
Transfers	(1,018)	-	-	1,018	-
Transfers to non-current assets for sale	(10,301)	-	-	1,745	(8,556)
Balance as at 31 December 2018	515,790	24,653	-	74,869	615,312
Accumulated amortization					
Balance as at 01 January 2017	235,018	8,637	1,375	15,156	260,186
Allocations	12,447	4,633	31	848	17,959
Withdrawals	(23,750)	(5,626)	-	(1,653)	(31,029)
Transfers	(250)	-	-	250	-
Transfers to non-current assets for sale	(16)	-	-	(34)	(50)
Other	(7)	-	-	-	(7)
Balance as at 31 December 2017	223,442	7,644	1,406	14,567	247,059
Allocations	11,190	5,389	26	734	17,339
Withdrawals	(9,342)	(3,311)	(1,432)	(1,156)	(15,241)
Transfers	(4)	-	-	4	-
Transfers to non-current assets for sale	(2,023)	-	-	279	(1,744)
Other	-	-	-	-	-
Balance as at 31 December 2018	223,263	9,722	-	14,428	247,413
Value adjustments due to asset impairment					
Balance as at 01 January 2017	(41,400)	-	-	(11,546)	(52,946)
Additions (Note 65)	(2,823)	-	-	115	(2,708)
Withdrawals	4,710	-	-	717	5,427
Transfers	-	-	-	-	-
Other	-	-	-	-	-
Balance as at 31 December 2017	**(39,513)**	-	-	**(10,714)**	**(50,227)**
Additions (Note 65)	(21)	-	-	157	136
Withdrawals	278	-	-	1,972	2,250
Transfers	3,162	-	-	(1,465)	1,697
Other	-	-	-	-	-
Balance as at 31 December 2018	**(36,094)**	-	-	**(10,050)**	**(46,144)**
Net					
Balance as at 31 December 2017	**263,773**	**12,699**	**729**	**51,754**	**328,955**
Balance as at 31 December 2018	**256,433**	**14,931**	**-**	**50,391**	**321,755**

(Expressed in thousands of euros)

On 4 July 2018, the Parent Company and the "MONDRAGON Foundation" executed an official deed of donation, whereby all the tangible fixed assets assigned to welfare projects were derecognised for a gross value of 2,135 thousand euros, with a net value of 703 thousand euros.

During 2018 and 2017, tangible fixed assets for own use were derecognised for a gross value of 11,778 thousand euros and 50,039 thousand euros, respectively, with a net value of 2,158 thousand euros and 21,579 thousand euros, respectively. At 31 December 2018, the disposals of property, plant and equipment for own use relate mainly to the sale of 3 properties with a net book value of 1,015 thousand euros (9 properties with a net book value of 21,507 thousand euros as at 31 December 2017).

In 2018, property investment items with a gross value of 4,929 thousand euros (4,282 thousand euros in 2017) were derecognised, mainly relating to the sale of garages and buildings. In the 2018 and 2017 financial years, profits (losses) on the sale of tangible assets amounted to 310 thousand and 5,465 thousand euros (Note 66).

In 2018 " Fixed assets for own use" were transferred to "Investment property" for a net book value of 37 thousand euros and from "Non-current assets held for sale" to "Investment property" for a net book value of 978 thousand euros (transfers from "Investment property" to "Fixed assets for own use" for a net book value of 923 thousand euros, relating to 2 offices no longer rented to third parties and from "Non-current assets held for sale" to "Investment property" for a net book value of 260 thousand euros in 2017).

In 2018 "Fixed assets for own use" were transferred to "Non-current assets held for sale" for a net amount of 6,093 thousand euros, which mainly relate to the closing of 15 offices (0 thousand euros in 2017).

The heading Property, plant and equipment for own use on the consolidated balance sheets as at 31 December 2018 and 2017 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
As at 31 December 2018				
Data processing equipment and installations	47,376	(42,159)	-	5,217
Furnishings, vehicles and other installations	162,636	(128,189)	-	34,447
Buildings	304,886	(52,023)	(36,094)	216,769
Work in progress	-	-	-	-
Other	892	(892)	-	-
	515,790	(223,263)	(36,094)	256,433
As at 31 December 2017				
Data processing equipment and installations	45,363	(39,485)	-	5,878
Furnishings, vehicles and other installations	164,426	(131,329)	-	33,097
Buildings	314,803	(51,739)	(39,513)	223,551
Work in progress	1,244	-	-	1,244
Other	892	(889)	-	3
	526,728	(223,442)	(39,513)	263,773

(Expressed in thousands of euros)

The fair value of Property, plant and equipment for own use is included in Note 42 to the annual accounts.

The net balance at 31 December 2018 and 2017 of Property, plant and equipment for own use does not include any amount in respect of property, plant and equipment not in use.

The gross value of the Group's property, plant and equipment for own use that was in use and fully depreciated as at 31 December 2018 and 2017 amounted to approximately 149,324 and 148,599 thousand euros, respectively.

The balance of Investment properties in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
As at 31 December 2018				
Buildings	73,520	(14,428)	(10,050)	49,042
Rural properties, land and plots	1,349	-	-	1,349
	74,869	(14,428)	(10,050)	50,391
As at 31 December 2017				
Buildings	75,686	(14,567)	(10,714)	50,405
Rural properties, land and plots	1,349	-	-	1,349
	77,035	(14,567)	(10,714)	51,754

The fair value of Investment properties is indicated in Note 42 to the annual accounts.

The gross value of the Group's investment property that had been rented and fully depreciated as at 31 December 2018 and 2017 amounts to approximately 2,145 thousand and 2,238 thousand euros, respectively.

Net operating income from the Group's Investment properties during 2018 and 2017 amounted to approximately 2,482 and 2,432 thousand euros, respectively.

When dealing with the lease of commercial premises or similar, contracts have a defined maturity, the term being established in each specific case.

(Expressed in thousands of euros)

Set out below is a breakdown of the balance of Leased out under operating leases in the consolidated balance sheets at 31 December 2018 and 2017:

	Gross	Accumulated amortization	Net
As at 31 December 2018			
Machinery	5,300	(2,154)	3,146
Furnishings and fixtures	1,144	(314)	830
Buildings	-	-	-
Computer hardware	14,432	(5,936)	8,496
Medical equipment	469	(180)	289
Vehicles	2,057	(709)	1,348
Other	1,251	(429)	822
	24,653	(9,722)	14,931
As at 31 December 2017			
Machinery	4,667	(2,109)	2,558
Furnishings and fixtures	322	(129)	193
Buildings	-	-	-
Computer hardware	12,358	(4,910)	7,448
Medical equipment	339	(85)	254
Vehicles	2,000	(105)	1,895
Other	657	(306)	351
	20,343	(7,644)	12,699

Income from rent from Assets assigned under operating leases by the Group in 2018 and 2017 amounted to approximately 6,261 thousand euros and 5,568 thousand euros, respectively. Operating expenses of all kinds corresponding to Assets assigned under operating leases of the Group in 2018 and 2017 amounted to approximately 373 thousand euros and 380 thousand euros, respectively (Note 56).

As at 31 December 2018 and 2017, the Group had the following commitments in relation to its Property, plant and equipment:

- The Group is the lessee of certain properties for which it has accrued rent of 5,748 thousand euros and 5,867 thousand euros, respectively, in 2018 and 2017 (Note 60-b). As at 31 December 2018 and 2017, the average remaining term of the lease agreements was 15 years.

- The following shows the present value of the total minimum future payments to be made in the following periods:

	2018	2017
Up to 1 year	4,439	4,408
Between 1 and 5 years	13,337	13,533
More than 5 years	12,462	11,771
	30,328	29,712

(Expressed in thousands of euros)

32. Intangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Goodwill	33,425	33,425
Other intangible assets	55	167
With undefined useful life	55	167
Amortised cost	55	167
Value adjustments due to asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	33,480	33,592

The breakdown of the balance in Goodwill in the consolidated balance sheets at 31 December 2018 and 2017 is as follows:

	2018	2017
Seguros Lagun Aro, S.A.		
Gross	33,425	33,425
Impairment adjustments	-	-
	33,425	33,425

Until 20 December 2011, the Group directly held 36.05% of the share capital of Seguros Lagun Aro, S.A. and indirectly held 4.94%. On that date, the Group acquired 59.01% of the share capital, thus obtaining control of Seguros Lagun Aro, S.A., a company that operates as a risk insurer in the main non-life areas of the insurance sector, with the hedging legally established for each area.

Goodwill of 33,425 thousand euros arising on the acquisition is attributable to the customer base acquired and to the economies of scale that will foreseeably be generated by combining the Group's operations with those of Seguros Lagun Aro, S.A.

On the basis of the estimates and projections held by the Parent Entity's directors, forecast income attributable to the Group from the investee entities that generated the goodwill is sufficient to cover the carrying amount of the goodwill.

(Expressed in thousands of euros)

Without taking into account the corrections for impairment of the assets, the movement of the balance in Goodwill during 2018 and 2017 was as follows:

	2018	2017
Balance at beginning of the year	33,425	33,425
Movements due to modifications in the consolidation scope for business combinations.	-	-
	33,425	33,425

There were no corrections recorded for impairment under the heading "Impairment or (-) reversal of impairment on non-financial assets - Goodwill" in the consolidated profit and loss account during the years ended 31 December 2018 and 2017.

Macroeconomic assumptions and interest rates used in the evaluation of goodwill impairment are as follows:

Each year, the Parent Company submits the goodwill recognised as a result of the acquisition of 100% of Seguros Lagun Aro, S.A. to the impairment analysis established in the accounting standards, which include a sensitivity analysis. This analysis is based on the analysis of the impairment of the cash-generating unit to which this goodwill has been allocated, in this case Seguros Lagun Aro, S.A. This unit would be impaired if its book value were to be higher than its value in use, defined as the present value of its estimated cash flows. This circumstance has not occurred since its acquisition.

The estimated cash flows are derived from the business plan of Seguros Lagun Aro, S.A. in its most prudent scenario, with moderate growth rates and excluding the positive net flows that might arise from structural changes in the business or in its efficiency. Specifically, the projection of cash flows takes as a starting hypothesis the projection of the results of the financial years for which planning is prepared.

Concerning the goodwill resulting from the business combination consisting of the acquisition of assets from Seguros Lagun Aro, S.A., at the close of 2018 and 2017 the Group carried out an assessment of whether there were any indications of impairment to that goodwill and estimated the recoverable value. As the recoverable amounts are higher than their respective carrying amounts, no impairment has been recognised.

The value was calculated by discounting future distributable net profits from the business carried on by the insurance company for a five-year projection period (to 2023, plus a calculation of its terminal value applying a 1% perpetuity growth rate, which corresponds to the target inflation rate in the economic environment in which the company operates. Previous experience has been greater than 1%). The key variables on which the financial projections were built are the evolution of the gross margin from direct insurance (conditioned by expected business volumes and interest rates) and the evolution of the other income statement items and of solvency levels.

(Expressed in thousands of euros)

The present value of the flows to be distributed, used to calculate value in use, was calculated applying as a discount rate the cost of capital (Ke) of Seguros Lagun Aro, S.A. from the viewpoint of a market participant. It was determined using the CAPM (Capital Asset Pricing Model)

Under this method, the pre-tax discount rate applied to the cash flow projections was 5.72%, as the cost of capital was considered internally. This estimate of the cost of capital is in line with those applied by independent analysts in the sector.

Annualised growth rates used in the forecast period (CAGR) for earned premiums have ranged from 1% and 1.80%, and for technical insurance expenses have ranged from 1% to 3.90%.

At 31 December 2018 and 2017, sensitivity analyses were conducted of the key valuation variables, and it was concluded that there was no evidence of impairment.

Under current tax legislation, at 31 December 2018 and 2017, generated goodwill is not tax deductible.

33. Tax assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Current taxes:	2,757	8,853	4,474	4,572
Corporate income tax	-	-	3,620	4,277
VAT	1,980	7,875	-	-
Withholdings refundable/payable	777	978	-	-
Other	-	-	854	295
Deferred taxes:	257,468	277,333	53,569	107,926
Valuation adjustments of the available-for-sale portfolio	17,585	27,767	18,046	71,826
Fixed asset restatement	-	-	30,493	31,070
Opening fees	1,606	-	-	-
Tax credits	186,861	197,760	-	-
Reinvestment of fixed assets	-	-	-	-
Provision for pensions and similar obligations	11,257	11,621	-	-
Provision for bad debts and other provisions	35,765	35,871	-	-
Depreciation and amortisation	-	-	-	-
Impairment of shareholdings	-	-	-	-
Revaluation of own financial liabilities - mortgage bonds	-	-	5,030	5,030
Deposit Guarantee Fund	-	-	-	-
Other items	4,394	4,314	-	-
	260,225	286,186	58,043	112,498

(Expressed in thousands of euros)

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2018 and 2017 between accounting and tax criteria which have been recorded as Deferred tax assets and Deferred tax liabilities upon calculation and recording of the corresponding tax expense related to profit from continuing operations.

Movements in 2018 and 2017 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2018	2017	2018	2017
Balance at beginning of the year	277,333	285,960	107,926	117,495
Increases / (decreases)	(19,865)	(8,627)	(54,357)	(9,569)
Bad-debt provision and other provisions	(106)	(5,318)	-	-
Reinvestment of fixed assets	-	-	-	-
Valuation adjustments Available-for-sale financial assets	(10,182)	2,146	(53,780)	(4,624)
Fixed-asset revaluation	-	-	(577)	(2,967)
Opening fees	1,606	(141)	-	-
Tax credits	(10,899)	(7,755)	-	-
Provision for pensions and similar obligations	(364)	1,589	-	-
Deposit Guarantee Fund	-	-	-	-
Other	80	852	-	(1,978)
Balance at the close of the year	257,468	277,333	53,569	107,926

Deferred tax assets for unrecognised tax losses and deductions are recognised to the extent that it is probable that the related tax benefit will be realised through taxable profit in the next 10 years from the year-end. As at 31 December 2018, the Parent Entity had recognized deferred tax assets for the aforementioned items amounting to 157,459 thousand euros and 29,402 thousand euros, respectively (169,629 thousand euros and 28,131 thousand euros, respectively, as at 31 December 2017), which are expected to be offset in future years against the tax benefits generated by the Parent Entity, as indicated in the Management's Annual Management Plans.

Pursuant to the Second Final Provision of Royal Decree-Law 14/2013, dated 29 November, on urgent measures for the adaptation of Spanish law to European Union regulations on the supervision and solvency of financial institutions, and its transposition into regional regulations in accordance with the provisions of Regional Regulation 17/2014, dated 16 December, of the Regional Government of Gipuzkoa, the Group has deferred tax assets available for conversion into receivables from the tax authorities amounting to an estimated 158 million euros as at 31 December 2018 (170 million euros as at 31 December 2017). Also, as from the 2016 financial year, in order for this conversion to be effective, it has an equity benefit associated with it of 1.5% of the amount of the aforementioned assets (see Note 57).

Note 41 outlines the Group's tax matters in further detail.

(Expressed in thousands of euros)

34. Other assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
Inventories	48,621	60,609	-	-
Time-apportionment of accrued fees	22,396	22,002	-	-
Other accrual items	14,089	17,614	57,621	58,818
Transactions in progress	39	931	300	244
Commercial creditors and other accounts payable	-	-	-	3,805
Community projects fund	-	-	13,089	13,017
Other items	1,619	524	4,236	1,389
	86,764	101,680	75,246	77,273

As mentioned in Note 10, as at 31 December 2018 and 2017 the heading "Other assets - other accrual items" includes 14,091 and 17,614 thousand euros, respectively, relating to the contribution to be made to the Deposit Guarantee Fund under Royal Decree-Law 2/2012, dated 3 February.

In 2018 and 2017, the amounts of 7,951 thousand and 17,626 thousand euros respectively were transferred from the heading "Non-current assets and disposal groups of items classified as held for sale" to "Other assets - Inventories", related to foreclosed assets that will be promoted and developed by the Group.

Community projects fund

Set out below is a breakdown of this item included under the heading "Other liabilities" in the consolidated balance sheets at 31 December 2018 and 2017:

	2018	2017
Development and Education Fund	13,089	13,017
Appropriation:	13,089	12,638
Applied to Property, plant and equipment	-	350
Applied to other investments - Financial assets at fair value with changes in other comprehensive income / available for sale (Note 25)	3,437	3,437
Expenses committed during the year	8,591	7,833
Current year maintenance expenses	(8,591)	(7,833)
Amount not committed	9,652	8,851
Revaluation reserves	-	379
	13,089	13,017

(Expressed in thousands of euros)

Movements during 2018 and 2017 in the balance of the Community Projects Fund are as follows:

	2018	2017
Balance at beginning of the year	13,017	12,030
Mandatory provision charged against the surplus for the year (Notes 4 and 57)	9,485	8,591
Appropriation against the surplus for the year	(8,591)	(7,833)
Fixed asset depreciation (Note 31)	(26)	(31)
Derecognition of fixed assets assigned to community projects (Note 31)	(703)	-
Other	(93)	260
Balance at year end	13,089	13,017

Law 13/1989 on Credit Cooperatives, amended by Law 20/1990 concerning the Tax Regime applicable to Cooperatives, maintains the distribution criteria contained in Royal Decree 2860/1978, of 3 November 1978, under which 10% of the net surplus, at least, should be appropriated to the Development and Education Fund (Note 4).

The transfers to this Fund are to be used, among other purposes, for the development of cooperativism and to meet the assistance or cultural needs of the community, or to be invested in assets that meet these objectives. In this respect, the mandatory allocation for 2017 and 2016 amounted to 8,591 and 7,833 thousand euros, respectively, and in 2018, 4,338 and 1,504 thousand euros (2017: 4,739 and 588 thousand euros) were allocated to the financing of corporate institutions of the MONDRAGON Group and to the Inter-cooperative Education and Promotion Fund, respectively.

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

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Tangible assets	207,496	227,235
Property, plant and equipment for own use	30,031	25,068
Investment properties	6,075	11,391
Tangible assets foreclosed	647,825	714,288
Value adjustments due to asset impairment	(476,435)	(523,512)
	207,496	227,235

Movements during 2018 and 2017 under "Non-current assets and disposal groups classified as held for sale" are as follows:

	2018	2017
Individualised items:		
Balance at close of previous year	227,235	278,987
Impact of the first application of IFRS 9 (Note 2.3)	219	-
Balance at beginning of the year	227,454	278,987
Additions	22,726	27,227
Disposals	(11,749)	(92,097)
Net impairment charges (Note 67)	(28,099)	30,127
Transfers to tangible assets (Note 31)	5,115	617
Transfers to write-off assets	-	-
Transfers to inventories (Note 34)	(7,951)	(17,626)
Balance at the close of the year	207,496	227,235

(Expressed in thousands of euros)

The breakdown of the impairment losses or reversals of non-current assets and disposal groups of items classified as held for sale recognised in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows (see Note 67):

	2018	2017
Tangible assets	(28,099)	30,127
Other assets	-	-
	(28,099)	30,127
Appropriations charged to income	(28,099)	30,127
	(28,099)	30,127

The movement in Value Adjustments due to asset impairment under "Non-current assets and disposal groups classified as held for sale" during 2018 and 2017 is as follows:

	2018	2017
Balance at close of previous year	523,512	567,747
Impact of the first application of IFRS 9 (Note 2.3)	(219)	-
Balance at beginning of the year	523,293	567,747
Net appropriations against income	28,099	(30,127)
Transfer of financial assets at amortised cost (Note 26)	9,039	10,921
Transfers to written off assets and disposals	(58,158)	5,673
Transfers to inventories (Note 34)	(27,535)	(30,702)
Transfers to tangible assets (Note 31)	1,697	-
	476,435	523,512

The breakdown of Measurement Adjustments for asset impairment under "Non-current assets and disposal groups classified as held for sale" as at 31 December 2018 and 2017 is as follows:

	2018	2017
Individualized items	476,435	523,512
	476,435	523,512

36. Financial liabilities measured at amortized cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Deposits from central banks	297,857	300,172
Deposits of credit institutions	9,061	69,141
Customer funds	19,481,080	18,612,854
Debt securities issued	104,631	149,550
Other financial liabilities	336,516	373,720
	20,229,145	19,505,437

(Expressed in thousands of euros)

The breakdown by currency and maturity of "Financial liabilities measured at amortised cost" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
By currency:		
In euros	20,201,398	19,477,421
In dollars	25,143	26,437
In pounds sterling	1,505	1,152
In Swiss francs	103	126
In Japanese yen	162	112
Other	834	189
	20,229,145	19,505,437
By maturity:		
On demand	14,735,748	13,891,164
Up to 1 month	1,097,430	736,099
Between 1 month and 3 months	573,183	631,524
Between 3 months and 1 year	1,856,722	2,070,880
Between 1 and 5 years	1,509,653	1,316,938
More than 5 years	134,491	481,700
No set maturity	213,322	228,394
Valuation adjustments	108,596	148,738
	20,229,145	19,505,437

a) Deposits from central banks

The balance of Deposits by central banks in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	2018	2017
Bank of Spain	300,000	300,000
Valuation adjustments	(2,143)	172
	297,857	300,172

As indicated in Note 16, in accordance with the Entity's active funding and liquidity monitoring policy, during the 2017 financial year the second series of longer-term refinancing operations with a specific objective (TLTRO II) announced by the European Central Bank was used to finance a total of 300 million euros.

The average rates of interest per annum on Deposits by Central Bank in 2018 and in 2017 were -0.40% and 0.00%, respectively.

The limit assigned by the Bank of Spain to the Parent Entity as at 31 December 2018 in the credit system guaranteed by public funds amounted to 1,023,476 thousand euros (1,054,981 thousand euros as at 31 December 2017).

(Expressed in thousands of euros)

b) Deposits of credit institutions

The balance of Deposits by credit institutions in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	2018	2017
Fixed-term deposits	9,042	12,761
Repurchase agreements	-	55,715
Other accounts	2	568
Valuation adjustments	17	97
	9,061	69,141

The average rates of interest per annum on Deposits by credit institutions in 2018 and in 2017 were 1.135% and 0.714% respectively.

c) Customer funds

Set out below is a breakdown of the balance of Customer funds in the consolidated balance sheets at 31 December 2018 and 2017:

	2018	2017
Spanish Government Bodies	279,613	273,377
Assets sold under repo agreements with counterparties	-	3,414
Other resident sectors:	19,158,050	18,294,153
Demand deposits	14,294,314	13,376,301
Current accounts	4,392,563	4,065,579
Savings deposits	9,879,834	9,286,661
Other	21,917	24,061
Fixed- term deposits:	3,930,104	4,341,443
Time deposits	3,884,735	4,297,440
Other	45,369	44,003
Repurchase agreements	822,910	427,940
Valuation adjustments	110,722	148,469
Interest accrued	29,629	27,495
Micro-hedging	81,093	120,974
Other non-resident sectors	43,417	41,910
	19,481,080	18,612,854

Average rates of interest per annum during 2018 and 2017 on Customer funds may be broken down by product as follows:

	2018	2017
Demand deposits	0.02%	0.05%
Fixed- term deposits	0.11%	0.15%

(Expressed in thousands of euros)

As at 31 December 2018, under the heading "Term deposits" 1,225 million euros (1,225 million euros as at 31 December 2017) were recorded relating to the issue by the Parent Entity of one-off mortgage bonds, which were underwritten by various Asset Securitisation Funds, the characteristics of which are as follows:

	Mortgage bond			
		Nominal amount (thousands of euros)		
Fund name	**Disbursement date**	**2018**	**2017**	**Maturity date**
TDA5 bonds, Asset Securitisation Fund	29/11/2004	100,000	100,000	27/11/2019
IM Bonds 5, Asset Securitisation Fund	15/06/2005	500,000	500,000	15/06/2020
IM Bonds 7, Asset Securitisation Fund	31/03/2006	625,000	625,000	31/03/2021
		1,225,000	1,225,000	

The annual nominal interest rate of the bonds issued at 31 December 2018 ranges between 3.50% and 4.12% (between 3.50% and 4.12% at 31 December 2017). The heading "Other resident sectors - valuation adjustments" as at 31 December 2018 includes 81,093 thousand euros (120,974 thousand euros as at 31 December 2017) which mainly relates to changes in the fair value of mortgage secured bonds attributable to interest rate risk for which hedging has been arranged, as described in Note 28.

The heading "Other sectors - Term deposits - Other" includes 103,934 thousand euros as at 31 December 2018 (149,061 thousand euros as at 31 December 2017) relating to the net amount of financing obtained in the issue of bonds through securitisation funds "I.M. Caja Laboral 1, F.T.A. ", "I.M. Caja Laboral 2, F.T.A. ". Certain loans were contributed to these funds and, as they do not comply with the requirements for derecognition, they remain on the Group's balance sheet as at 31 December 2018 and 2017 (Note 26).

This heading mainly includes the outstanding balance of the loans contributed to these funds amounting to 549,004 thousand euros (606,799 thousand euros as at 31 December 2017), net of the bonds subscribed by the Group amounting to 410,170 thousand euros (422,209 thousand euros as at 31 December 2017).

It is to be noted that it is the Group's intention to use the bonds subscribed to the "I.M. Caja Laboral 2 F.T.A. " fund as collateral in the implementation of Eurosystem credit transactions.

In Laboral Kutxa's capacity as issuer of mortgage bonds and in compliance with the provisions of article 21 of Royal Decree 716/2009 (of 24 April) and Bank of Spain Circular 7/2010 (of 30 November), note 70 to these annual consolidated financial statements includes the information regarding the special accounting treatment applicable to issuers of covered and mortgage bonds.

(Expressed in thousands of euros)

Set out below is a breakdown by currency and maturity of the balance of Customer funds in the consolidated balance sheets as at 31 December 2018 and 2017:

	2018	2017
By currency:		
In euros	19,453,333	18,584,838
In dollars	25,143	26,437
In pounds sterling	1,505	1,152
In Swiss francs	103	126
In Japanese yen	162	112
Other	834	189
	19,481,080	18,612,854
By maturity:		
On demand	14,586,429	13,662,497
Up to 1 month	1,097,430	736,099
Between 1 month and 3 months	573,183	631,524
Between 3 months and 1 year	1,856,629	2,070,865
Between 1 and 5 years	1,209,650	1,316,938
More than 5 years	10,939	11,761
No set maturity	36,098	34,701
	19,370,358	18,464,385
Valuation adjustments	110,722	148,469
	19,481,080	18,612,854

d) Debt securities issued

Set out below is a breakdown of the balance of debt securities issued in the consolidated balance sheets at 31 December 2018 and 2017:

	2018	2017
Promissory notes and bills	-	-
Other inconvertible securities	-	-
Mortgage securities	254,631	299,550
Measurement adjustments	(150,000)	(150,000)
Valuation adjustments	-	-
	104,631	149,550

Mortgage securities

During the year 2006 the Group contributed certain mortgage loans to the Securitisation fund "I.M. Caja Laboral 1, F.T.A. ". Likewise, during 2008 and 2011 the Group contributed certain loans to the securitisation funds "I.M. Caja Laboral 2, F.T.A." and "I.M. Caja Laboral Empresas 1, F.T.A." (the latter was settled in advanced during 2016 (Note 26)), respectively for the issue of securitisation bonds, which were totally subscribed by the Group. It is the Group's intention to use these subscribed bonds as guarantee in credit operations with the Eurosystem.

(Expressed in thousands of euros)

At 31 December 2018 the securitisation bonds issued through the "I.M. Caja Laboral 1, F.T.A." and "I.M. Caja Laboral 2, F.T.A. " funds subscribed by third parties amounted to 104,631 thousand euros (149,550 thousand euros as at 31 December 2017). These bonds mature in October 2049 and in January 2051, respectively, and bear annual interest at the Euribor plus a mark-up between 0.15% and 0.21% and 0.30% and 1%, respectively.

At 31 December 2014, this heading also included 150 million euros corresponding to the par value of two unique mortgage-backed securities issues due in 2019 and 2020 that were bought in full by the European Investment Bank (EIB).

During 2015, the Parent Entity executed the purchase option granted to the issuer of the mortgage secured bonds as a result of the repayment of the financing obtained from the European Investment Bank. Therefore, at 31 December 2018 and 2017 no balance is reflected under this heading as the nominal value of these mortgage secured bonds is included under "Own securities".

The yield on the securities subscribed by the European Investment Bank maturing in 2020 and 2019 was determined by means of a variable interest rate on the nominal value indexed to the 3-month Euribor plus a margin of 5.50% and 3.35% payable quarterly, respectively.

During 2012, the Parent Entity issued 2 covered bonds with an individual value of 700 million euros maturing in 2016 and 2017 which have been retained in full and recorded under "Own securities" to serve as collateral in the obtention of rediscounting facilities with the European Central Bank.

Movements during 2018 and 2017 in "Debt instruments issued" are set out below:

	2018	2017
Balance at beginning of the year	149,550	174,810
Issues	-	-
Securities issued by third parties	-	-
Amortisation	(45,128)	(725,144)
Own securities of the Group	-	700,000
Valuation adjustments	209	(116)
Balance at the close of the year	104,631	149,550

(Expressed in thousands of euros)

e) Other financial liabilities

The breakdown of the balance of the heading "Other financial liabilities" in the balance sheet as at 31 December 2018 and 2017 is as follows:

	2018	2017
Obligations payable	6,721	7,159
Deposits received	117,299	147,102
Clearing Houses	13,136	30,063
Collection accounts	101,621	97,992
Special accounts	2,608	1,224
Accruals and deferred income from financial guarantees	2,368	2,544
Other items	92,763	87,636
	336,516	373,720

37. Liabilities under insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Life insurance technical reserves:	490,168	482,054
Unearned premium and unexpired risk reserves:	69,527	68,797
Direct insurance	69,527	68,797
Mathematical reserves	420,641	413,257
Direct insurance	420,641	413,257
Technical reserves for life insurance when the investment risk is assumed by policyholders:	298	326
Direct insurance	298	326
Technical reserves for claims:	86,409	83,265
Direct insurance	86,409	83,265
Technical reserves for share in gains and returned premiums:	64	35
Direct insurance	64	35
Deposits received in respect of ceded reinsurance	10,887	10,937
Debts for reinsurance operations	2,651	3,290
	590,477	579,907

38. Provisions

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Pensions and other post-employment defined benefit obligations	40,204	41,504
Other long-term employee benefits	-	-
Pending legal issues and tax litigation	-	-
Commitments and guarantees given	19,479	20,992
Other provisions	128,732	129,379
	188,415	191,875

(Expressed in thousands of euros)

Movements in "Provisions" during 2018 and 2017 are set out below:

	Pensions and other post-employment defined benefit obligations	Other long-term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
As at 31 December 2017						
Balance at the beginning of the year	35,830	-	-	25,411	147,268	208,509
Additions, including increases in existing provisions	19,704	-	-	-	12,779	32,483
(-) Amounts used	(12,775)	-	-	-	(38,501)	(51,276)
(-) Unused amounts reversed during the period	(1,255)	-	-	(4,443)	-	(5,698)
Other movements	-	-	-	24	7,833	7,857
Balance at the end of the year	41,504	-	-	20,992	129,379	191,875
As at 31 December 2018						
Balance at the beginning of the year	41,504	-	-	20,992	129,379	191,875
Additions, including increases in existing provisions	12,514	-	-	15,074	15,156	42,744
(-) Amounts used	(12,590)	-	-	-	(24,618)	(37,208)
(-) Unused amounts reversed during the period	(1,224)	-	-	(16,073)	(4,072)	(21,369)
Other movements	-	-	-	(514)	12,887	12,373
Balance at the end of the year	40,204	-	-	19,479	128,732	188,415

a) Pensions and other post-employment defined benefit obligations

As at 31 December 2018 and 2017, the Parent Entity had entered into future commitments with some of its partners under the voluntary agreement to adhere to the "PD II", "PD 58", "PD 59", "PD 60" and "New Network" plans. Consequently, the Parent Entity has recorded provisions to cover commitments for serving personnel accruing since the date of implementation of the scheme to the date on which they cease their employment with the Parent Entity for the salary supplements and other welfare charges that they will receive until its employees' actual retirement.

The present value of the commitments entered into by the Parent Entity relating to post-employment remuneration and the way in which these commitments were covered are as set out below:

	2018	2017
Commitments entered into	40,204	41,504
	40,204	41,504
Hedges		
Internal funds	40,204	41,504
	40,204	41,504

On 31 December 2018 and 2017 future flows of benefits were measured regarding the cover of the commitments for post-employment compensation using the projected credit unit method of calculation and taking the retirement age of each employee to be the earliest date on which he becomes entitled to retire.

The financial-actuarial assumptions used in the actuarial valuation are set out below:

	2018	2017
Discount rate	0%	0%
Growth in advance gross future consumption	0%	0%
Growth in benefits	0%	0%
Growth in RPI	2%	2%
Retirement age	Earliest possible age	Earliest possible age

The discount rate applied to the commitments was determined on the basis of the duration of the commitment - 1.8 years - and the reference curve was calculated based on the Euro Denominated Corporate Bonds AA curve at 31 December 2018 (Source: Bloomberg).

b) Other provisions

The balance in the heading "Provisions - Other provisions", which includes provisions for possible expenses, losses and/or probable or certain costs arising from lawsuits or claims in progress, or obligations derived from the Group's business activities, among other items, was estimated using prudent calculation procedures to reflect the uncertainty inherent in the obligations covered.

The Group's general policy is to record provisions for legal proceedings in which the risk of loss is deemed probable and no provisions are recorded when the risk of loss is possible or remote. The amounts to be allocated are calculated in accordance with the best estimate of the amount required to settle the corresponding claim, based, inter alia, on an individualised analysis of the facts and legal opinions of the internal and external advisors or taking into account the historical average number of losses arising from claims of this nature. The final date of the release of resources which incorporate economic benefits for the Group depends on each one of the obligations. In some cases, the obligations do not have a fixed settlement period and, in other cases, they depend on ongoing legal processes.

The Group has estimated the obligations relating to each claim and/or legal process and has recognised, when necessary, adequate provisions that reasonably cover the liabilities that might arise from the claims received and/or from the legal proceedings opened.

(Expressed in thousands of euros)

39. Own Funds

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017
Capital	741,461	727,167
Other reserves	858,321	809,891
(Treasury shares)	(1,620)	(1,431)
Profit/(loss) attributable to owners of the parent company	124,173	112,849
(Interim dividends)	(33,492)	(29,113)
	1,688,843	1,619,363

Capital

The Parent Entity's share capital is made up of contributions made and paid by working members, collaborating members and Associate Cooperatives. In accordance with the Parent Entity's By-laws (Note 1), the total amount of contributions by each member may not exceed 20% of share capital, for legal entities, and 2.5% of share capital, for individuals. Members' liability for the entity's debts is equal to the value of their contributions.

For each year, the General Assembly, at the proposal of the Governing Body, approves, where appropriate, the remuneration on account applicable to these contributions, which, in accordance with the Regulations concerning the Credit Cooperative Law, may not exceed the legal interest rate increased by six points. The rate applied for ordinary contributions in 2018 and 2017 was 4.5% and 4% per annum, respectively.

Movements in 2018 and 2017 in the Parent Entity's capital balance are set out below:

	2018	2017
Balances at the beginning of the year	727,167	712,957
Cooperative returns from the distribution of previous year's surplus (Note 4)	21,478	19,583
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	1,497	463
- Members and other	1,590	1,749
Less, liquidation of contributions owing to departures		
- Associate cooperatives	(2,529)	(913)
- Members and other	(7,742)	(6,672)
Transfers to capital classed as financial liabilities	-	-
Balances at the end of the year	741,461	727,167

At 31 December 2018, the only entity that directly or indirectly has a shareholding of 10% or more in the share capital of the Entity is LagunAro, Entidad de Previsión Social Voluntaria, which owns 15.21% (15.26% in 2017).

In 2013 and 2012, the Parent Entity issued equity twice.

i) The first issue was aimed at working members, collaborating members and Associated Cooperatives, with a subscription term from April to October 2012. As at 31 December 2018 and 2017, the amount subscribed for this first issue was 35,563 and 36,874 thousand euros, respectively. The remuneration associated with the first issue is an annual rate of 7.5% up to 15 December 2015, on which date the remuneration was aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

ii) The second issue was launched in December 2012 and is targeted at customers with specific ties to the Parent Entity. As at 31 December 2018 and 2017, subscriptions for this second issue were 56,091 thousand euros and 56,511 thousand euros, respectively. The remuneration on this second issue is an annual rate of 6% until 30 December 2014, on which date remuneration aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

Contributions (parts in the Entity) are transferable "inter vivos" only to other members and to parties wishing to acquire such status, in accordance with the terms and conditions contained in the Parent Entity's By-laws, and by succession "mortis causa", if the successor is a member or acquires member status within six months. In the event of departure, the member or his successors are entitled to request the reimbursement of the contributions to share capital, the value of which, following the relevant reduction, where appropriate, by a percentage determined by the Governing Body on the basis of the reason for the forfeiture of member status, will be estimated based on the balance sheet approved by the General Assembly following the definitive departure date. The reimbursement period will be set by the Governing Body and may not exceed five years following the date of departure or one year from the member's death, where appropriate.

Final Provision Six of Royal Decree 1309/2005, dated 4 November, introduced certain amendments to Article 10 of Royal Decree 84/1993 which approved the Regulations on credit cooperatives, which enabled credit cooperatives to establish restrictions in their articles of association on the reimbursement of members' contributions to capital. The Parent Entity's bylaws provide that the reimbursement of contributions to members is subject to the approval of the Governing Body of the Parent Entity and to the condition that said reimbursement does not lead to insufficient coverage of minimum share capital, equity or solvency ratios.

Under the Parent Entity's bylaws, minimum share capital is 10 million euros and must be fully paid in.

(Expressed in thousands of euros)

As at 31 December 2018 and 2017, equity instruments in subsidiaries held by the Parent Entity and Caja Laboral Euskadiko Kutxa Cartera, S.L.U. and their nominal values, as well as payments pending on those dates, are as follows:

	2018			2017		
	Number of shares	Nominal value (in euros)	Payments pending	Number of shares	Nominal value (in euros)	Payments pending
Seguros Lagun Aro Vida, S.A.	285,000	111.88	8,565	285,000	111.88	8,565
Seguros Lagun Aro, S.A.	87,360	90.15	-	87,360	90.15	-
Caja Laboral Gestión, SGIIC, S.A.	1,045,000	6.01	-	1,045,000	6.01	-
Caja Laboral Pensiones, G.F.P., S.A.	250,000	10	-	250,000	10	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	1,237,500	6	-	1,237,500	6	-
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	10,000	1	-	10,000	1	-
Sociedad Gestión Activos Caja Laboral, S.A.U.	995,889	1	-	995,889	1	-
Credilka, S.A. (*)	-	-	-	-	-	-
ISGA Inmuebles, S.A.	60,000	1	-	60,000	1	-

(*) During the 2017 financial year, Credilka, S.A. went into liquidation.

Other reserves

Set out below is a breakdown of the balance of other reserves in the consolidated balance sheets at 31 December 2018 and 2017:

	2018	2017
Reserves or accumulated losses of investments in joint ventures and associates:	191	144
Associated Companies	191	144
Jointly-controlled entities	-	-
Revaluation reserves:	-	-
Parent Entity	-	-
Other:	858,130	809,747
Reserves (losses) attributed to Parent Entity	999,423	940,963
Reserves (losses) attributed to Subsidiaries	(141,293)	(131,216)
	858,321	809,891

The movements experienced during the 2018 and 2017 financial years in the balance of Other Reserves are shown below:

	2018	2017
Balance as at 31 December 2017	809,891	766,469
Impact of the first application of IFRS 9 (Note 2.3)	(3,447)	-
Balance as at 1 January 2018	806,444	766,469
Prior year surplus distribution	49,371	43,496
Share capital increases	18	3
Other	2,488	(77)
Balance as at 31 December 2018	858,321	809,891

Law 13/1989, of 26 May 1989, on Credit Cooperatives, partially amended by Law 20/1990, of 19 December 1990 on the Tax Regime applicable to Cooperatives, established new bases for arranging credit in relation to these entities. In 1993 Royal Decree 84/1993, of 22 January 1993, was published which approves the enabling regulations of Law 13/1989, of 26 May 1989, on Credit Cooperatives. The criteria employed to distribute the surplus available from the year are described in Note 4.

Mandatory Reserve Fund

As at 31 December 2018 and 2017, the "Other reserves" heading includes 666,048 thousand euros and 623,074 thousand euros, respectively, corresponding to the Mandatory Reserve Fund. Law 13/1989 established that at least 50% of the available surplus for the year should be appropriated to this Mandatory Reserve Fund. Law 20/1990 amended previous legislation and established that at least 20% of the available surplus for the year should be appropriated to the Mandatory Reserve Fund. Under the Parent Entity's current by-laws, 50%, at least, of the available surplus for the year should be distributed. A breakdown is included in Note 4.

Reserve for insolvency risks

Prior to effectiveness of Law 13/1989, qualifying credit cooperatives had to earmark at least 15% of their available annual surpluses to endowing this reserve. Laws 13/1989 and 20/1990 do not require any specific provisions to such an insolvency reserve fund within the criteria for distributing available surplus for the year.

Revaluation reserve

The Parent Entity availed itself of Transitional Provision One of Bank of Spain Circular 4/2004 concerning the restatement of tangible fixed assets whereby enterprises were allowed to record, at 1 January 2004, tangible fixed assets at fair value, subject to the assets being freely available.

Voluntary Reserves

On 26 December 2011, the Governing Board of the Parent Entity, with a view to simplifying the composition of its own funds, particularly its reserve accounts, and on the basis of analysis thereof, determined that, considering the grounds for their original constitution and the time elapsing since then, the "Reserve for insolvency risks", the "Revaluation reserve" and the "Reserve for first application" and others, constituted "Unrestricted reserves". On the basis of the foregoing, the members of Caja Laboral approved the unification of these reserves into a single reserve heading called "Voluntary reserves" totalling 88,947 thousand euros at the General Assembly meeting of 28 April 2012. The Parent Entity registered the transfer at year-end 2011.

(Expressed in thousands of euros)

The breakdown by Entity of the balance of Other reserves - Reserves/(losses) attributable to subsidiaries at 31 December 2018 and 2017 is as follows:

	2018	2017
Seguros Lagun-Aro, Vida, S.A.	2,597	54
Caja Laboral Gestión, SGIIC, S.A.	1,256	1,257
Caja Laboral Pensiones, G.F.P., S.A.	105	99
Seguros Lagun-Aro, S.A.	10,858	2,123
Caja Laboral Kutxa Cartera, S.L.U.	1,505	4,979
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	2,631	2,337
Sociedad Gestión Activos Caja Laboral, S.A.U.	(13,149)	(13,707)
ISGA Inmuebles, S.A.	(147,096)	(128,358)
	(141,293)	(131,216)

The breakdown of the balance of reserves or accumulated losses of investments in joint ventures and associates at 31 December 2018 and 2017 is as follows:

	2018	2017
Associates:	191	144
ICR Institutional Investment Management, S.G.I.I.C., S.A.	191	144
Jointly-controlled entities:	-	-
	191	144

Provided below is a breakdown by Entities of the contribution to Income attributed to the Group at 31 December 2018 and 2017:

	2018	2017
Parent Entity	104,932	117,561
Subsidiaries:	19,409	(4,759)
Seguros Lagun Aro Vida, S.A.	2,209	2,319
Caja Laboral Gestión S.G.I.I.C., S.A.	1,352	921
Caja Laboral Pensiones, G.F.P., S.A.	44	66
Seguros Lagun Aro, S.A.	6,299	6,971
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(11)	(11)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	1,790	1,702
Credilka, S.A.	-	-
Sociedad Gestión Activos Caja Laboral, S.A.U.	852	876
ISGA Inmuebles, S.A.	6,874	(17,603)
Entities measured under the equity method	(168)	47
- Associates:	(168)	47
ICR Institutional Investment Management, S.G.I.I.C., S.A.		47
- Jointly-controlled entities:	-	-
Fomenclar, S.L.	-	-
Property Development Companies (see Appendix I)	-	-
IK - LKS Corporate, S.L.	-	-
	124,173	112,849

(Expressed in thousands of euros)

40. Accumulated other comprehensive income

The breakdown of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

	2018	2017 (*)
Items that may be reclassified to profit or loss:	(15,835)	109,065
Hedging derivatives. Cash flow hedge (effective portion):	(30,156)	(30,837)
Financial assets with changes in other comprehensive income / Available-for-sale financial assets:	14,321	139,902
Debt instruments	14,321	108,509
Equity instruments	-	31,393
Items that will not be reclassified to profit or loss	14,940	
Financial assets with changes in other comprehensive income:	14,940	
Equity instruments	14,940	
	(895)	109,065

(*) See reconciliation of IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018 (Note 2.3).

The balance included under "Other accumulated comprehensive income - Financial assets with changes in other comprehensive income - Debt instruments" of Net Equity corresponds to the net amount of those changes in the fair value of these fixed income financial instruments that must be classified as an integral part of the Net equity of the Group. When available-for-sale assets are sold, the changes are recorded in the profit and loss account.

The balance included under "Other accumulated comprehensive income - Financial assets with changes in other comprehensive income - Equity instruments" of Net Equity corresponds to the net amount of those changes in the fair value of these equity instruments that must be classified as an integral part of the Net Equity of the group. When the sale of the financial assets occurs, the changes are recorded in the "Other Reserves" heading of Net Equity (Note 39).

The changes in the total of the "Other accumulated comprehensive income" heading in Net Equity in 2018 and 2017 were as follows:

	2018	2017
Balance at close of previous year	109,065	131,525
Effects of the application of IFRS 9 (Note 2.3)	(77,805)	-
Balance at beginning of the year	31,260	131,525
Net movement charged to reserves	(484)	-
Net movement charged /(credited) to income	(22,415)	(30,306)
Sales and redemptions	(17,637)	(31,668)
Impairment losses (net) charged against income statement	(4,778)	1,362
Net valuation gains / (losses)	(9,936)	27,150
Variations in micro-hedging cash flows	680	(19,304)
Other	-	-
	(895)	109,065

For a proper interpretation of the variations in this heading, it is necessary to consider the circumstances of the financial markets in 2018 and 2017, as explained in Note 18.

(Expressed in thousands of euros)

The breakdown by Entity of the amount included in "Other accumulated comprehensive income" in equity as at 31 December 2018 and 2017 is as follows:

	2018	2017
Parent Entity	(18,259)	86,023
Subsidiaries:	17,364	23,042
- Seguros Lagun-Aro Vida, S.A.	17,568	20,579
- Seguros Lagun Aro, S.A.	(204)	2,463
Associates and Jointly-controlled companies	-	-
	(895)	109,065

41. Tax situation

The Parent Entity and Investees file individual income tax returns in accordance with tax regulations applicable to them.

Pursuant to Provincial Regulation 2/97 of the Gipuzkoa Tax Regime for Cooperatives, the tax rate applicable to credit cooperatives is 28%. In the remaining dependent financial companies the applicable tax rate was 28% in 2018 and 2017.

The legislation applicable to the payment of corporate income tax for 2018 for the main Investees consists of Provincial Regulation 2/2014, of 17 January, the Gipuzkoa regional authority and Provincial Regulation 11/2013, of 5 December, of the Bizkaia regional authority, depending on the region in which each investee operates and files its corporate income tax returns.

The directors of the Parent Entity and the Investees have calculated the amounts related to this tax for 2018, and those years open to inspection, in accordance with regional legislation in force at each year end.

Loss carryforwards and tax credits generated under Gipuzkoa regulations must be applied within 15 years.

(Expressed in thousands of euros)

The reconciliation for the Parent Entity of accounting income for 2018 and 2017 to the corporate income tax base is as follows:

	2018	2017
Accounting income for the year before taxes (*)	139,829	123,764
Permanent differences:		
Increases		
- Non-deductible expenses	107	118
- Other items	2,561	
Decreases		
- Mandatory allocation to Development and Education Fund (Note 57) (*)	(9,485)	(8,591)
- Allocation to the Inter-Coop Company Fund	(12,887)	(11,750)
- Gross deductible interest paid on account for contributions to the share capital	(33,565)	(29,170)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(23,711)	(21,478)
- Capital gains reinvested in fixed assets used in the business	(10,927)	(9,922)
- Deductions for double taxation	(6,788)	(8,289)
- Other items	-	-
Taxable income (tax loss)	45,134	34,682
Temporary differences		
- Arising in the present year	(2,953)	(13,317)
- Dynamic Payroll Plan	(1,300)	5,675
- Appropriations to other provisions	(378)	(18,992)
- Opening fees (IFRS 9 - Note 2.3)	(1,275)	-
- Other	-	
- Arising in previous years	1,967	10,003
Tax base	44,148	31,368
Offset of tax losses	(44,148)	(31,368)
Net tax base	-	-
Gross tax payable (28%)	-	-
Deductions and allowances	-	-
Net tax payable	-	-
Withholdings and payments on account	(778)	(978)
Corporate income tax payable / (refundable)	(778)	(978)

(*) Profit before tax, without considering the mandatory appropriation to community projects and social funds, included under the heading "Other operating expenses" in the profit and loss account (Note 57).

(Expressed in thousands of euros)

The breakdown of "Tax expenses or (-) income related to profit from continuing operations" in the 2018 and 2017 profit and loss accounts of the Parent Company is as follows:

	2018	2017
Accounting base at the applicable rate	12,637	9,711
Deductions and allowances	(1,235)	(782)
Other items	16	(247)
	11,418	8,682

The composition of "Expenditure or (-) income for taxes on profit from continuing operations" in the consolidated profit and loss account for 2018 and 2017 is as follows:

	2018	2017
Accounting base at the applicable rate	12,637	9,711
Deductions and allowances	(1,235)	(782)
Other items	16	(247)
Corporate income tax, Parent Entity	11,418	8,682
Corporate income tax, Investee Entities		
Accounting base at the applicable rate	3,287	4,149
Other items	-	-
	14,705	12,831

In addition to the "Expenditure or (-) Income for Taxes on Profit from continuing operations" in the profit and loss account, deferred taxes arising from other accumulated comprehensive income from equity in 2018 and 2017 were generated or reversed for the following items and amounts:

	2018	2017
Items that may be reclassified to profit or loss:		
Financial assets at fair value with changes in other comprehensive income / available for sale	265	(1,227)
Hedging derivatives. Cash flow hedges (effective portion)	(10,733)	(7,507)
	(10,468)	(8,734)

At 31 December 2018 and 2017, the breakdown of deductions and allowances from corporate income tax of the Parent Entity pending to apply in future years, is as follow:

	Last clearing year	2018	2017
Unused tax losses	2027	562,354	605,817
		562,354	605,817

(Expressed in thousands of euros)

At 31 December 2018 and 2017, the breakdown of deductions and allowances from corporate income tax of the Parent Entity pending to apply in future years, is as follow:

	Last year of use	2018	2017
Deductions for double taxation	2033	10,982	10,891
Deductions with limit over gross tax payable	2033	12,601	12,588
Deductions without limit over gross tax payable	2033	5,820	4,652
		29,403	28,131

Deductions without a limit over gross tax payable relate mainly to deductions generated as a result of Parent Entity investments in R&D&I.

The directors of the Parent Entity believe that it is probable that it will generate sufficient taxable profit in the future to enable the utilisation of the amounts shown above, to which end it has capitalised all of the above unused tax credits and unused tax losses as deferred tax assets (Note 33).

In accordance with prevailing tax legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.

As at 31 December 2018 the Parent Entity's tax returns for 2014 to 2017 for the principal taxes to which it is subject are open to inspection by the tax authorities.

The Parent Entity's directors consider that any liabilities that could arise from the years open to inspection would not have a significant effect on the consolidated annual accounts for 2018. Due to the different interpretations that may be afforded to tax regulations applicable to the transactions performed by the Group, for the years pending inspection certain contingent tax liabilities could exist. However, in the opinion of the Parent Entity's directors, the possibility of such contingent liabilities arising is remote and, in any event, the tax liability which could arise would not have a significant effect on the Group's consolidated annual accounts as a whole.

(Expressed in thousands of euros)

42. Fair value of the consolidated balance sheet assets and liabilities

i) Fair value of financial assets and liabilities.

As indicated in Note 13, the financial assets of the Group are recorded in the attached consolidated balance sheet at their fair value except for financial assets at amortised cost. Similarly, the Group's financial liabilities are recorded in the accompanying consolidated balance sheet at their fair value, with the exception of Capital repayable on demand and Financial liabilities at amortized cost, which are not covered by accounting provisions.

The following table summarizes the fair values at the end of 2018 and 2017 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2018

	Total Balance sheet	value balance	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,573,346	1,573,346	-	-	1,573,346
Financial assets held for trading	127,111	127,111	124,203	2,908	-
Financial assets at fair value with changes in other comprehensive income	1,136,015	1,136,015	1,029,578	28,532	77,905
Non-trading financial assets mandatorily valued at fair value	62,136	62,136	40,557	1,911	19,668
Financial assets at amortized cost	18,998,859	19,124,240	5,593,467	50,364	13,481,409
Derivatives - Hedge accounting	148,906	148,906	-	148,906	-
TOTAL FINANCIAL ASSETS	**22,046,373**	**22,171,754**	**6,787,805**	**232,621**	**15,152,328**
Financial liabilities held for trading	1,893	1,893	1,321	572	-
Financial liabilities measured at amortized cost	20,229,145	20,229,145	-	-	20,229,145
Derivatives - Hedge accounting	158,166	158,166	-	157,890	276
TOTAL FINANCIAL LIABILITIES	**20,389,204**	**20,389,204**	**1,321**	**158,462**	**20,229,421**

2017

	Total Balance sheet	value balance	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,848,245	1,848,245	-	-	1,848,245
Financial assets held for trading	144,461	144,461	140,870	3,591	-
Financial assets designated at fair value through profit or loss	2,517	2,517	380	2,137	-
Available-for-sale financial assets	5,081,194	5,081,013	4,716,263	224,436	140,314
Loans and receivables	13,796,818	13,801,350	-	55,434	13,745,916
Investments held to maturity	410,937	371,512	370,270	1,242	-
Derivatives - Hedge accounting	143,642	143,642	-	143,642	-
TOTAL FINANCIAL ASSETS	**21,427,814**	**21,392,740**	**5,227,783**	**430,482**	**15,734,475**
Financial liabilities held for trading	1,533	1,533	589	944	-
Financial liabilities measured at amortized cost	19,505,437	19,505,437	-	-	19,505,437
Derivatives - Hedge accounting	238,838	238,838	-	238,772	66
TOTAL FINANCIAL LIABILITIES	**19,745,808**	**19,745,808**	**589**	**239,716**	**19,505,503**

The criteria used to determine fair value are as follows:

Level 1: using listed prices on active markets for the same financial instruments.

Level 2: using listed prices on active markets for similar instruments or other measuring techniques in which all significant inputs are based on market data that is observable either directly or indirectly.

Level 3: using measurement techniques in which some significant inputs are not based on observable market data.

The measurement techniques used, and the assumptions applied to determine fair value, were as follows:

- Cash, cash balances at central Banks and other demand deposits: Fair value is considered to coincide with the carrying value as these consist of on demand deposits or amounts that can be realized in the short-term.

- Debt securities: For public debt assets and certain fixed-income securities issued by credit entities, fair value is based on listed prices on active markets (Level 1). Certain fixed-income securities the returns on which are linked to trends in interest rates were measured using valuation techniques based on discounted cash flow analysis using the interest rate curve and market spreads for similar instruments (Level 2). The value of all other debt securities was measured using prices calculated by authorised external valuation agents (Level 3).

- Equity instruments: The listed price on active markets (Level 1) has been used, except for certain mutual funds and venture capital funds, for which the prices calculated by external appraisers (Levels 2 and 3).

- Financial assets at amortised cost - Loans and advances - Customers: It is estimated that there are no significant differences between their book value and their fair value because the vast majority of the loans granted by Caja Laboral are referenced to a variable interest rate and / or, if not, their date of expiration is less than 12 months. Moreover, the impairment provisions for loan losses on this portfolio were calculated in keeping with prevailing applicable regulations and these provisions are deemed sufficient to cover the related credit risk.

(Expressed in thousands of euros)

However, in a financial and economic scenarios such as the current situation, and given that there is no market for those financial assets, the amount by which they may be exchanged between interested parties could be different to their recognized net value since the potential buyer could not only discount the losses incurred and recognized in accordance with applicable accounting rules, but also the losses that could be incurred in the future in the case of a prolonged existence of the current economic situation, exceptional in terms of its length and effects.

- Financial liabilities measured at amortized cost: No significant differences are deemed to exist between their carrying value and fair value due to the fact that most are indexed to a variable interest rate and/or, if this is not the case, they mature within 12 months.

The reasons why there may be differences between fair value and the carrying value of financial instruments are as follows:

- For fixed rate instruments, the fair value varies based on market interest rates. The variance is higher the longer the instrument's residual life.

- For variable rate instruments, fair value may differ from carrying value if the margins relating to the interest rate of reference have changed since the instrument was issued. If the margins remain constant the fair value coincides with the carrying value only on the repricing dates. At all other dates there is interest rate risk for flows that have already been calculated.

The movement of the balances of financial assets and liabilities at fair value classified as Level 3 in the accompanying consolidated balance sheets is shown below:

	Assets	Liabilities
Balances at 31 December 2016	**272,186**	**-**
Valuation adjustment recorded on income statement	30,856	-
Valuation adjustment not recorded on income statement	12,286	66
Purchases, sales and liquidations	(175,014)	-
Net additions/(exists) on Level 3	-	-
Currency exchanges and others	-	-
Balance as at 31 December 2017	**140,314**	**66**
Valuation adjustments recorded in income statement	102,192	210
Valuation adjustments not recorded in income statement	671	-
Purchases, sales and liquidations	(145,604)	-
Net additions/(exists) on Level 3	-	-
Currency exchanges and others	-	-
Balance as at 31 December 2018	**97,573**	**276**

During 2018 and 2017, there were no transfers of financial instruments between the different levels of valuation.

(Expressed in thousands of euros)

ii) Fair value of non-financial assets

The comparison at 31 December 2018 and 2017 between the carrying value in the balance sheet of the Group's non-financial assets which are measured other than at fair value together with the pertinent fair value is as follows:

	2018		2017	
	Value recorded	Fair Value	Value recorded	Fair Value
Assets				
Tangible assets:				
For own use and investment properties	306,824	351,522	315,527	360,671
Non-current assets and disposal groups classified as held for sale	207,496	207,496	227,235	227,235
Inventories	48,621	48,621	60,609	60,609

The fair value of these assets has been determined as follows:

- At 31 December 2018 and 2017 the fair value of the properties included under the headings "Property, plant and equipment for own use" and "Investment properties" was calculated, at 97% and 87%, respectively, of the carrying cost through valuations, performed in 2012 and 2018 by independent companies, in line with the rules set out by the Bank of Spain. For the rest of the buildings the previous valuations were updated prior to 2011 (internal valuations and assessments) to which, in light of the current situation and market expectations, the Entity applied an objectively calculated correction factor.

  For all other items of property, plant and equipment, the respective carrying amounts were believed to provide the most reliable estimate of fair value at both year-ends.

- The fair value of non-current assets held for sale which are located in Spain has been estimated taking into account the expected recoverability, applying the parameters set out in Section V of Annex IX to Bank of Spain Circular 4/2017, and for assets related to real estate development existing as at 31 December 2011, the criteria established in Royal Decree-Law 2/2012, of 3 February. In determining said value, the appraisals conducted by the valuation companies registered with the Bank of Spain have also been utilized, in accordance with MO ECO/805/3002 of 27 March and the current situation in the property market and the economic cycle.

The Entity mainly uses the services of the following valuation companies: Sociedad de Tasación, S.A., Krata, S.A., Técnicas de Tasación, S.A. and Servicios Vascos de Tasaciones, S.A.

(Expressed in thousands of euros)

43. Financial guarantees

The breakdown of this heading as at 31 December 2018 and 2017 which relates to the amounts that the Group should pay on behalf of third parties in the event of default by the parties originally required to effect payment, as a result of the commitments assumed by the Group in the ordinary course of business is as follows:

	2018	2017
Financial guarantees	94,871	93,520
	94,871	93,520

44. Loan commitments granted and other commitments granted

The breakdown of this heading as at 31 December 2018 and 2017 is as follows:

	2018	2017
Loan commitments granted:	989,896	960,576
Balances drawable by third parties:	989,896	960,576
Credit institutions	168	165
The Public Administrations sector	174,702	137,152
Other resident sectors	814,935	823,077
Non-residents	91	182
Other commitments granted	289,202	280,463
Purchase of Annotated Debt	-	-
Securities subscribed pending disbursement	30	398
Other guarantees and sanctions provided	113,063	124,192
Irrevocable documentary credits	14,429	11,553
Other contingent commitments	161,680	144,320
Documents delivered to Clearing Houses	161,680	144,320
	1,279,098	1,241,039

45. Interest income

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Financial assets held for trading	1,012	1,387
Financial assets designated at fair value through profit or loss	-	48
Financial assets at fair value with changes in other comprehensive income (*)	11,847	76,451
Financial assets at amortised cost (**)	237,339	188,191
Financial assets not held for trading mandatorily measured at fair value through profit or loss	157	-
Derivatives - hedge accounting, interest rate risk	22,408	1,201
Other assets	2,146	8
Interest income from liabilities	4,576	946
	279,485	268,232

(*) The comparative balance corresponds to the interest on balances classified as financial assets available for sale as at 31 December 2017 (Note 2.3).

(**) The comparative balance corresponds to the interest on balances classified as loans and receivables and investments held until maturity as at 31 December 2017 (Note 2.3).

(Expressed in thousands of euros)

The "Financial assets at amortised cost" heading includes 105,503 thousand euros in 2018 relating to mortgage-backed transactions (111,946 thousand euros in 2017).

Most of the interest income was generated by financial assets of the Parent Entity which are measured either at amortised cost or at fair value with changes in other comprehensive income.

Of the total interest income in the above table as at 31 December 2018 and 2017, most of it has been calculated using the effective interest rate method.

The distribution by geographical area of the number of the Group's bank branches at 31 December 2018 and 2017 is as follows:

	2018	2017
Bizkaia	89	92
Gipuzkoa	67	69
Araba	31	33
Navarra	40	41
New Network	82	89
	309	324

46. Interest expense

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortized cost	53,251	53,468
Derivatives - hedge accounting, interest rate risk	(45,343)	(45,238)
Other liabilities	37	89
Interest expenditure on assets	25,068	12,570
	33,013	20,889

Most of the interest expenses were generated by financial assets of the Parent Entity which are measured at amortised cost.

Of the total interest expenditure in the above table as at 31 December 2018 and 2017, most of it has been calculated using the effective interest rate method.

The rectification of expenses owing to hedging operations mainly refers to financial Swaps arranged to hedge the fair value of certain mortgage bond issues (Notes 36 y 28).

(Expressed in thousands of euros)

47. Dividend income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	8,208	-
Financial assets at fair value with changes in other comprehensive income (*)	3,438	3,653
	11,646	3,653

(*) The comparative amount corresponds to income from balances classified in the heading Financial assets available for sale in 2017 (See Note 2).

48. Income from companies valued using the equity method

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows (Note 29):

	2018	2017
Associated Companies	(168)	47
Jointly-controlled entities	-	-
	(168)	47

49. Fee and commission income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
For contingent exposures	2,773	3,140
For contingent commitments	1,081	1,038
For currency and foreign bank notes exchange	103	103
For collection and payment services	49,945	47,815
For securities services:	25,595	22,756
Underwriting and placement of securities	-	-
Purchase-sale of securities	839	870
Administration and custody	1,494	1,545
Asset management	23,262	20,341
For marketing of non-bank financial products:	19,254	18,448
Investment funds	2,282	1,920
Pension funds	15,675	15,056
Insurance	1,297	1,472
Other	-	-
Other fees	15,356	14,623
	114,107	107,923

(Expressed in thousands of euros)

50. Fee and commission expense

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Brokerage in asset and liability transactions	32	34
Fees assigned to other correspondent entities:	4,675	3,805
For collection or return of bills	4	4
For other items	4,671	3,801
Fees paid on securities operations	915	934
With market intermediaries	872	895
Other	43	39
Other fees	6,960	6,754
	12,582	11,527

51. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net, and for financial assets not held for trading mandatorily measured at fair value through profit or loss, net

The breakdown of these headings in the consolidated profit and loss account for the years ended 31 December 2018 and 2017, based on the origin of the items that comprise it, is as follows:

	2018	2017
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25,834	43,983
Financial assets at fair value with changes in other comprehensive income / Available-for-sale financial assets	25,834	43,564
Financial assets at amortised cost / Loans and receivables / Investments held until maturity	-	419
Gains or (-) losses on financial assets not intended for trading, which are necessarily valued at fair value through profit or loss, net	(3,638)	
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	(3,638)	
	22,196	43,983
Gains	34,955	51,699
Losses	(12,759)	(7,716)
	22,196	43,983

(Expressed in thousands of euros)

While the breakdown, based on the nature of the financial instruments that gave rise to these balances in the annual periods ended 31 December 2018 and 2017, is as follows:

	2018	2017
Debt securities	25,504	19,166
Equity instruments	(3,308)	24,817
Derivatives	-	-
	22,196	43,983

52. Gains or (-) losses on financial assets and liabilities held for trading, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 based on the origin of the items that comprise it, is as follows:

	2018	2017
Financial assets held for trading	69	870
	69	870
Gains	96,422	62,685
Losses	(96,353)	(61,815)
	69	870

While the breakdown, based on the nature of the financial instruments that gave rise to these balances in the annual periods ended 31 December 2018 and 2017, is as follows:

	2018	2017
Debt securities	13,910	581
Equity instruments	(43)	-
Derivatives	(13,798)	289
	69	870

53. Gains or (-) losses on financial assets and liabilities recognised at fair value with changes in profit or loss, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Financial assets designated at fair value through profit or loss	-	159
	-	159
Gains	-	235
Losses	-	(76)
	-	159

(Expressed in thousands of euros)

54. Gains or (-) losses from hedge accounting, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Hedging derivatives	(55,847)	(43,286)
Hedged items	39,900	43,403
	(15,947)	117
Gains	297,563	277,217
Losses	(313,510)	(277,100)
	(15,947)	(117)

"Gains or (-) losses from hedge accounting - Hedging derivatives" refers to the measurement adjustments of the hedging derivatives for fair values hedges, for the years 2018 and 2017. Also, the heading "Gains or (-) losses from hedge accounting - Hedged items" includes the valuation adjustments to the hedged items under these contracts designated as fair value hedges (Note 13.e).

55. Exchange differences [gains or (-) losses], net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Gains	52,038	92,703
Losses	(51,495)	(92,741)
	543	(38)

56. Other operating income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Sales and revenues for the provision of services	2,017	2,062
Other operating revenues	13,101	14,185
Financial fees offsetting costs	2	2,888
Revenues from other operating leases (net) (Note 31)	5,888	5,188
Inventory variations in real estate assets	-	-
Other	7,211	6,109
	15,118	16,247

(Expressed in thousands of euros)

57. Other operating expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Contribution to Deposits Guarantee Fund (Note 10)	24,786	24,745
Contribution to National Resolution Fund (Note 10)	2,852	3,140
Mandatory allocation to welfare funds (Notes 4 and 34)	9,485	8,591
Purchases and expenses related to real estate assets	-	-
Other items	4,200	10,711
Change in inventories	-	-
	41,323	47,187

The amounts recorded under the heading "Other operating expenses - Mandatory allocation to welfare funds" in the consolidated profit and loss account for the years ended 31 December 2018 and 2017, totalling 9,485 and 8,591 thousand euros, respectively, relate to the mandatory allocation to the Promotion and Education Fund in accordance with the Law on Cooperatives and the Entity's articles of association (Note 4).

Also, "Other operating expenses - Other items" as at 31 December 2018, includes the estimate for the equity provision for the conversion of deferred tax assets into tax receivables from the tax authorities amounting to 2,527 thousand euros (2,568 thousand euros in 2017).

58. Income from assets under insurance and reinsurance contracts

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Revenues from insurance and reinsurance policies issued	194,780	202,919
	194,780	202,919

59. Expenses on liabilities under insurance and reinsurance contracts

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Expenses for insurance and reinsurance policies	140,171	153,019
	140,171	153,019

(Expressed in thousands of euros)

60. Administration costs

a) Staff expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Salaries and bonuses paid to serving employees	120,009	125,729
Social security contributions	5,076	5,436
Severance payments	637	2,137
Staff training expenses	1,020	1,144
Other staff costs	956	790
	127,698	135,236

As at 31 December 2018 and 2017 the Parent Entity records remuneration related to services provided in the course of business, as analysed below:

	2018			2017		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	1	295	294	5	364	359

The average number of employees of the Group in the years 2018 and 2017 distributed by categories is as follows:

	2018	2017
Directors	55	52
Managers	438	453
Specialists	810	869
Administrative staff	968	1,016
	2,271	2,390

Of the total workforce at 31 December 2018, 19 people had some degree of recognized disability (15 at 31 December 2017).

As at 31 December 2018 and 2017, the distribution of the Group's personnel by gender is as follows:

	Number of members					
	2018			2017		
	Women	Men	Total	Women	Men	Total
Directors	8	47	55	7	46	53
Managers	138	295	433	140	312	452
Specialists	424	376	800	462	400	862
Administrative staff	581	383	964	604	395	999
	1,151	1,101	2,252	1,213	1,153	2,366
Parent Entity	923	1,015	1,938	946	1,042	1,988
All other Investee Entities:						
Subsidiaries	228	86	314	267	111	378
	1,151	1,101	2,252	1,213	1,153	2,366

(Expressed in thousands of euros)

The breakdown of the number of members of the Governing Body of the Parent Entity by gender, at 31 December 2018 and 2017, was as follows:

	Number of members					
	2018			2017		
	Women	Men	Total	Women	Men	Total
Members of the Governing Board	6	6	12	6	6	12

Other administrative expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
For buildings, installations and materials:	15,706	16,669
Rentals (Note 31)	5,748	5,867
Maintenance of fixed assets	6,392	6,683
Lighting, water and heating	2,283	2,658
Forms and office materials	1,283	1,461
IT	8,896	7,862
Communications	5,504	5,336
Advertising and publicity	8,367	8,025
Legal costs and lawyers' fees	2,588	3,957
Technical reports	32,131	28,412
Surveillance and transfer of funds services	1,880	1,898
Insurance and self-insurance premiums	1,085	962
By Governing and Control Bodies	145	177
Entertainment and staff travel expenses	1,696	1,822
Association charges	270	216
Administrative services subcontracted	6,699	6,354
Rates and taxes	10,389	9,362
Other expenses	3,987	6,067
	99,343	97,119

The leases under which the Group is the lessee largely refer to business premises used as branches by the Parent Entity's commercial network and which are formalised through contracts for specific terms which generally exceed 20 years.

In 2018 a premium was paid for group civil liability insurance for all the directors and executives of the Parent Company, for any potential damage caused by incorrect actions committed or allegedly committed in the exercise of their duties, for a total amount of 35 thousand euros (35 thousand euros in 2017).

In addition, "Other administrative expenses - Contributions and taxes" includes as at 31 December 2018 the tax on Deposits with credit institutions amounting to 5,694 thousand euros (5,402 thousand euros in 2017) (Note 33).

(Expressed in thousands of euros)

61. Depreciation

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Property, plant and equipment:	17,313	17,928
Property, plant and equipment	16,579	17,080
For own use	11,190	12,447
Assigned under operating leases	5,389	4,633
Investment properties	734	848
Intangible assets	111	99
	17,424	18,027

62. Provisions or (-) reversal of provisions

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Pensions and other post-employment defined benefit obligations (Note 38)	11,290	18,449
Commitments and guarantees given (Note 38)	(999)	(4,443)
Pending legal issues and tax litigation (Note 38)	-	-
Other provisions (Note 38)	11,084	12,779
	21,375	26,785

63. Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net losses or (-) gains due to changes

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Financial assets with changes in other comprehensive income / Available for sale (Note 25)	6,636	1,892
Debt securities	6,636	1,263
Equity instruments	-	629
Financial assets at amortised cost / Loans and receivables (*) (Note 26)	5,632	11,923
Customers	5,632	11,923
	12,268	13,815

(*) Includes depreciation of bad debts and failed asset recovery of 3,845 thousand euros and 4,178 thousand euros in 2018, respectively (8,626 and 6,523 thousand euros in 2017, respectively).

(Expressed in thousands of euros)

64. Impairment or (-) reversal of impairment of investments in joint ventures and associates

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Associates (Note 29)	-	-
Jointly-controlled entities (Note 29)	-	-
	-	-

65. Impairment or (-) reversal of impairment on non-financial assets

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Tangible assets (Note 31)	(136)	2,708
Other assets	-	-
	(136)	2,708

66. Gains or (-) losses on derecognition of non-financial assets, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Net gains (losses) on the sale of tangible assets	310	5,465
Net gains (losses) on disposal of shareholdings	-	1
	310	5,466

67. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Net gains/(losses) on sale of non-current assets	49,899	(27,713)
Impairment losses of Non-current assets for sale (Note 35)	(28,099)	30,127
	21,800	2,414

(Expressed in thousands of euros)

68. Transactions with Subsidiaries, Jointly-controlled entities and Associates

The significant balances recorded as at 31 December 2018 and 2017 between the Parent Entity and Subsidiaries and the effect of the transactions between them during the years ended on the same date have been eliminated on consolidation. The summary of the balances as at 31 December 2018 and 2017 relating to assets and liabilities held with jointly controlled entities and associates is as follows:

	2018	2017
Balances		
Customer funds	-	-
Non-current assets for sale	-	-
Guarantees	-	-

The most significant transactions carried out in 2018 and 2017 with Jointly-controlled entities and Associates are as follows:

	2018	2017
Interest and similar charges	-	-
Fees collected	-	-
Interest and similar income	-	-

69. Other information

A breakdown of customer funds off the Group's consolidated balance sheet as at 31 December 2018 and 2017 is as follows:

	2018	2017
Managed by the Entity's Group:	4,399,165	4,282,539
Investment Funds and companies	2,358,225	2,208,094
Pension funds and EPSVs	1,635,791	1,670,810
Insurance contract saving	405,149	403,635
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	921,746	843,894
	5,320,911	5,126,433

As at 31 December 2018, the balance of deposits of securities owned by third parties amounted to 4,854,781 thousand euros (4,321,753 thousand euros as at 31 December 2017).

Total debt securities assigned by the Group as at 31 December 2018 and 2017 amounted to 875,873 thousand euros and 680,815 thousand euros, respectively, which had been assigned to third parties and recognised mainly under the heading of "Financial liabilities at amortised cost - Customer deposits" on the balance sheet. The remaining balance at the end of each year is included under Financial liabilities at amortised cost - Deposits in credit institutions on the balance sheet.

70. Information of issuers on the mortgage market and on the special accounting register

As indicated in Note 36, the Parent Entity issued mortgage bonds, so that we include hereinafter the information on the data from the special accounting register of the issuing entity, referred to in Article 21 of Royal Decree 716/2009, of 24 April, by virtue of what is set out in Circular 7/2010, to credit entities, which develops certain aspects of the mortgage market and with a disclosure level established in Circular 5/2011, of 30 November, from the Bank of Spain.

Also, in accordance with the provisions of Royal Decree 716/2009, dated 24 April, which develops certain aspects of Law 2/1981, dated 25 March, regulating the mortgage market and other rules of the financial mortgage system, the Board of Directors of the Parent Company states that, as at 31 December 2018, the Parent Company has a set of policies and procedures to guarantee compliance with the regulations governing the mortgage market.

These policies and procedures include, among other items the following points:

The criteria for granting risks are based on the capacity of the borrowers to pay, and in estimating this the internal models (Scorings y Ratings) are a fundamental element.

The principal relieving factors admitted are the mortgage guarantee, with particular emphasis on the LTV ratio of the operation and the guarantors.

These models, bases upon the data introduced and on the historic behaviour of certain variables, are capable of estimating the probability of payment default and therefore to assign a first credit rating to the request. Each operation is classified on a scale of levels from lesser to greater risk, establishing a PD - Probability of Default for each one.

The models evaluate various variables that quantify the level of earnings or income, the patrimony or indebtedness, the payment behaviour, the degree of links and personal aspects of the borrower and certain characteristics of the risk operation.

Specifically, the current models consider the following types of variables: the personal characteristics, payment default history, the capacity to obtain income or earnings, debt profile, net patrimony, links with the entity, the characteristics of the operation itself and the coverage of the operation (mitigating factors).

Moreover, there are also procedures to check the information incorporated into the system covering the data introduced, especially those related to income, equity, the mortgage guarantee through a valuation of the property, the use of the financing, the general data on the client and the behaviour bases of the client.

To determine the value of the real estate assets being used as a mortgage guarantee in the risk operation the valuations being employed must meet the following conditions:

- Be performed by a valuation company registered in the Official Registry of Valuation in the Bank of Spain.
- That the Ministerial Order MO ECO/805/2003 of 27 March is applied

(Expressed in thousands of euros)

The value of these assets is revised with a certain variable frequency depending on the classification of the operation they are guaranteeing, the amount and the LTV (risk / value of the asset), and various policies are established for operations classified as problematic (doubtful or foreclosed) and those classified as normal or for special monitoring.

a) Asset operations

The nominal value of the total outstanding mortgage loans and credits portfolio as at 31 December 2018 and 2017 amounted to 10,116 million euros and 10,312 million euros, respectively, of which 7,471 million euros and 7,301 million euros, respectively, are eligible (without taking into account the calculation limits established in article 12 of the aforementioned Royal Decree).

The following table shows the nominal value of the Entity's total loans and credits with mortgage guarantees, as well as those that are eligible in line with content of the norm applicable for the purpose of issuing mortgage bonds and securities:

	Thousands of euros	
	2018	2017
	Nominal value	Nominal value
Total loans (a)	**10,666,060**	**10,919,853**
Mortgage bonds issued	**-**	**-**
Of which: Loans recognised in balance sheet	-	-
Mortgage transfer certificates issued	**550,339**	**608,119**
Of which: Loans recognised in balance sheet	550,339	608,119
Mortgage loans securing financing received	**-**	**-**
Loans securing issues of mortgage bonds and covered bonds	**10,115,721**	**10,311,734**
Non-eligible loans (b)	2,644,266	3,010,861
They fulfil requirements to be eligible, except the limit stipulated in Article 5,1 of RD 716/2009	1,717,776	1,565,096
Rest of non-eligible loans	926,490	1,445,765
Eligible loans (c)	7,471,455	7,300,873
Loans covering mortgage bond issues	-	-
Loans eligible for covered bond issue coverage	7,471,455	7,300,873
Non-computable amounts (d)	7,042	7,948
Computable amounts	7,464,413	7,292,925

(a) Balance available pending collection of the loans and credits guaranteed by mortgages registered in the entity's favour (including those acquired through mortgage participations and certificates of mortgage transfers), although they have been removed from the balance sheet, whatever be the percentage that the risk represents of the amount of the latest valuation (*loan to value*).

(b) Loans with mortgage guarantee not transferred to third parties or subject to financing received that do not meet the requirements of article 3 of Royal Decree 716/2009 for being eligible for the issue of mortgage bonds or mortgage securities.

(c) Loans eligible for the issue of mortgage bonds or securities in line with article 3 of Royal Decree 716/2009, without deducting the limits to their computing established in article 12 of Royal Decree 716/2009.

(d) Amount of the eligible loans that, in line with the criteria set in article 12 of Royal Decree 716/2009, are not computable to offer coverage for the issue of mortgage bond s or securities.

(Expressed in thousands of euros)

The following table shows a breakdown of the mortgage loans and credits according to the various attributes of these amounts at 31 December 2018 and 2017:

	Thousands of euros			
	2018		2017	
	Loans that support the issue of mortgage bonds and mortgage securities (a)	*Of which:* Eligible loans (b)	Loans that support the issue of mortgage bonds and mortgage securities (a)	*Of which:* Eligible loans (b)
TOTAL	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
1 ORIGIN OF THE OPERATIONS	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
1.1 Originated by the entity	10,046,551	7,421,395	10,235,212	7,244,025
1.2 Subrogated from other entities	69,170	50,060	76,522	56,848
1.3 Rest	-	-	-	-
2 CURRENCY	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
2.1 Euro	10,115,721	7,471,455	10,311,734	7,300,873
2.2 Rest of currencies	-	-	-	-
3 PAYMENT SITUATION	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
3.1 Normal in payment	9,604,415	7,295,144	9,666,714	7,096,804
3.2 Other situations	511,306	176,311	645,020	204,069
4 AVERAGE RESIDUAL MATURITY	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
4.1 Up to ten years	4,475,430	3,070,373	4,502,459	2,966,686
4.2 Over ten years up to twenty years	5,638,056	4,399,958	5,803,340	4,330,503
4.3 Over twenty years up to thirty years	2,235	1,124	5,935	3,684
4.4 More than thirty years	-	-	-	-
5 INTEREST RATES	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
5.1 Fixed	452,251	278,467	323,186	160,182
5.2 Variable	-	-	-	-
5.3 Mixed	9,663,470	7,192,988	9,988,548	7,140,691
6 OWNERS	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
6.1 Legal entities and individual entrepreneurs (business activities)	1,036,047	1,470	1,141,059	1,431
Of which: Property construction and development	91,714	-	85,685	312
6.2 Other household	9,079,674	7,469,985	9,170,675	7,299,442
7 TYPE OF GUARANTEE	**10,115,721**	**7,471,455**	**10,311,734**	**7,300,873**
7.1 Assets/finished buildings	10,044,381	7,461,367	10,212,491	7,289,439
7.1.1 Homes	9,473,650	7,441,848	9,621,741	7,269,717
Of which: Homes with official protection	251,332	190,701	280,077	201,322
7.1.2 Offices and commercial premises	321,396	16,139	325,745	16,216
7.1.3 Other buildings and constructions	249,335	3,380	265,005	3,506
7.2 Assets/Buildings under construction	7,257	-	8,044	-
7.2.1 Homes	5,357	-	8,044	-
Of which: Homes with official protection	-	-	-	-
7.2.2 Offices and commercial premises	1,900	-	-	-
7.2.3 Other buildings and constructions	-	-	-	-
7.3 Land	64,083	10,088	91,199	11,434
7.3.1 Developed	28,250	5,097	32,832	5,922
7.3.2 Rest	35,833	4,991	58,367	5,512

(a) Balance available pending collection of the loans with mortgage guarantee, whatever be the percentage that the risk represents of the amount of the latest valuation (loan to value) not transferred to third parties nor affected by financing received.

(b) Loans eligible for the issue of mortgage bonds or securities in line with article 3 of Royal Decree 716/2009, without deducting the limits to their computing established in article 12 of Royal Decree 716/2009.

The amount that, according to the criteria set forth in article 12 of the aforementioned Royal Decree, is computable to cover the issue of mortgage securities as at 31 December 2018 and 2017 amounted to 7,464 and 7,293 million euros, respectively.

(Expressed in thousands of euros)

In relation to the nominal and updated values, calculated in accordance with Article 23 of the aforementioned Royal Decree, the Parent Company did not have issues of mortgage bonds as at 31 December 2018 or 2017, and the nominal value of the mortgage loans and credits that, still in the portfolio, had been mobilised through mortgage participations or mortgage transfer certificates as at 31 December 2018 and 2017 amounted to 550 and 608 million euros, respectively.

The nominal value of all non-eligible mortgage loans and credits amounted to 2,645 million euros as at 31 December 2018 (3,011 million euros as at 31 December 2017), of which those not being eligible due to non-compliance with the limits established in article 5.1 of Royal Decree 716/2009 but meeting the rest of the requirements applicable for eligibility (referred to in article 4 of that standard) amounted to 1,718 and 1,565 million euros at the close of fiscal years 2018 and 2017, respectively.

The distribution of the nominal values of the mortgage loans and credits eligible for the issue of mortgage bonds and securities based upon the percentage that they represent on the latest valuation available for the purposes of the mortgage market, at 31 December 2018 and 2017, is as follows:

As at 31 December 2018

	Thousands of euros					
	Principal drawn on the last available valuation amount (*loan to value*) (b)					
	2018					
	Less or equal to 40%	**Greater than 40% and less or equal to 60%**	**Greater than 60%**	**Greater than 60% and less or equal to 80%**	**Greater than 80%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or securities (a)	**2,406,228**	**2,714,414**	**9,091**	**2,341,722**	**-**	**7,471,455**
- On homes	2,387,714	2,700,000	-	2,341,722	-	7,429,436
- On others	18,514	14,414	9,091	-	-	42,019

As at 31 December 2017

	Thousands of euros					
	Principal drawn on the last available valuation amount (*loan to value*) (b)					
	2017					
	Less or equal to 40%	**Greater than 40% and less or equal to 60%**	**Greater than 60%**	**Greater than 60% and less or equal to 80%**	**Greater than 80%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or securities (a)	**2,328,465**	**2,675,986**	**9,111**	**2,287,311**	**-**	**7,300,873**
- On homes	2,310,186	2,660,644	-	2,287,311	-	7,258,141
- On others	18,279	15,342	9,111	-	-	42,732

(a) Loans eligible for the issue of mortgage bonds and securities, according to article 3 of Royal Decree 716/2009 without deducting the limits to their computing established in article 12 of said Royal Decree.

(b) The loan to value is the ratio resulting from dividing the principal disposed of each operation on the value of the latest available appraisal.

(Expressed in thousands of euros)

The movements in the nominal values of the mortgage loans and credits that back the issue of mortgage bonds or securities (eligible or non-eligible) in the years 2018 and 2017 are as follows:

	Thousands of euros	
	Eligible loans (a)	Non-eligible loans (b)
1 Opening balance 2017	7,548,727	3,087,621
2 Derecognised during the year	574,313	621,653
2.1 Terminations at maturity	14,922	21,158
2.2 Advanced cancellations	113,325	78,181
2.3 Subrogations from other entities	1,623	1,449
2.4 Rest	444,443	520,865
3 Additions during the year	326,459	544,893
3.1 Originated by the entity	324,250	541,800
3.2 Subrogations from other entities	2,209	3,093
3.3 Rest	-	-
3.4 Additions due to business combinations	-	-
4 Closing balance 2017	7,300,873	3,010,861
1 Opening balance 2018	7,300,873	3,010,861
2 Derecognised during the year	906,385	1,088,368
2.1 Terminations at maturity	16,426	14,561
2.2 Advanced cancellations	135,053	101,210
2.3 Subrogations from other entities	1,120	463
2.4 Rest	753,786	972,134
3 Additions during the year	1,076,967	721,773
3.1 Originated by the entity	1,058,371	703,740
3.2 Subrogations from other entities	6,191	2,774
3.3 Rest	12,405	15,259
3.4 Additions due to business combinations	-	-
4 Closing balance 2018	7,471,455	2,644,266

(a) Loans eligible for the issue of mortgage bond s or securities in line with article 3 of Royal Decree 716/2009, without deducting the limits to their computing established in article 12 of Royal Decree 716/2009.

(b) Loans with mortgage guarantee not transferred to third parties or subject to financing received that do not meet the requirements of article 3 of Royal Decree 716/2009 for being eligible for the issue of mortgage bonds or mortgage securities.

The balances available of mortgage loans and credits that back the issue of Mortgage bonds and securities at 31 December 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
	Principals available (a)	Principals available (a)
Mortgage loans that back the issue of mortgage bonds and securities	**32,232**	**33,283**
- Potentially eligible (b)	-	-
- Non-eligible	32,232	33,283

(a) Amounts committed (limit) less the amounts used in all loans with a mortgage guarantee whatever be their percentage of total risk against the latest valuation (loan to value) not transferred to third parties nor affected to financing received. The available balance also includes the amounts that are only passed to promoters when they sell the homes.

(b) Potentially eligible loans for the issue of mortgage bonds and securities in line with article 3 of Royal Decree 716/2009

At 31 December 2018 and 2017 the Parent Entity has not identified substitution assets for the issue of live mortgage bonds, because it did not consider it to be necessary since the percentage of issues done, at those dates, over the total of eligible assets to support these issues were 18.40% and 18.83%, respectively, compared to the maximum of 80% established in the Article 16 of Law 2/1981, of 25 March, on the Regulation of the Mortgage Market.

(Expressed in thousands of euros)

b) Liabilities operations

The following is a breakdown of the issues made and collateralised from the portfolio of mortgage loans and credits of the Entity at 31 December 2018 and 2017:

	Thousands of euros			
	2018		2017	
Mortgages	**Nominal value**	**Average residual maturity (in months)**	**Nominal value**	**Average residual maturity (in months)**
1 Mortgage bonds issued	**-**		**-**	
2 Mortgage warrants issued	**1,375,000**		**1,375,000**	
Of which: registered in liabilities on balance sheet	1,225,000		1,225,000	
2.1 Securities representing debt. Issued through public offer	150,000		150,000	
2.1.1 Residual maturity up to one year	75,000		-	
2.1.2 Residual maturity greater than one year and up to two years	75,000		75,000	
2.1.3 Residual maturity greater than two years and up to three years	-		75,000	
2.1.4 Residual maturity greater than three years and up to five years	-		-	
2.1.5 Residual maturity greater than five years and up to ten years	-		-	
2.1.6 Residual maturity greater than ten years	-		-	
2.2 Securities representing debt. Rest of issues	-		-	
2.2.1 Residual maturity up to one year	-		-	
2.2.2 Residual maturity greater than one year and up to two years	-		-	
2.2.3 Residual maturity greater than two years and up to three years	-		-	
2.2.4 Residual maturity greater than three years and up to five years	-		-	
2.2.5 Residual maturity greater than five years and up to ten years	-		-	
2.2.6 Residual maturity greater than ten years	-		-	
2.3 Deposits	1,225,000		1,225,000	
2.3.1 Residual maturity up to one year	100,000		-	
2.3.2 Residual maturity greater than one year and up to two years	500,000		100,000	
2.3.3 Residual maturity greater than two years and up to three years	625,000		500,000	
2.3.4 Residual maturity greater than three years and up to five years	-		625,000	
2.3.5 Residual maturity greater than five years and up to ten years	-		-	
2.3.6 Residual maturity greater than ten years	-		-	
3 Mortgage Participations issued (b)	**-**		**-**	
3.1 Issued through public offer	-		-	
3.2 Rest of issues	-		-	
4 Mortgage transfer certificates issued (b)	**550,340**	**228**	**608,119**	**235**
4,1 Issued through public offer	-	-	-	-
4.2 Rest of issues	550,340	228	608,119	235

(a) The mortgage warrants issued include all those issued by the entity pending amortisation, independently of not being registered in liabilities (because they were not placed with third parties or were re-bought)

(b) The amount of mortgage participations and of the mortgage transfer certificates issued corresponding exclusively to the mortgage loans and credits registered in assets (held on the balance sheet).

(Expressed in thousands of euros)

71. Information on the average supplier payment period. Third Additional Provision. Disclosure requirement Law 15/2010

In accordance with Law 31/2014 of 3 December on the improvement of corporate governance which amended Additional Provision Three of Law 15/2010 of 5 July on the amendment of Law 3/2004 of 29 December, which implemented measures to combat late payment in business transactions, and considering the Single Additional Provision of the Resolution of 29 January 2016 by the Institute of Accountants and Auditors, for the purpose of complying with the relevant disclosure requirements, information on the average supplier payment period during 2017 and 2018 is set out below:

	Days	
	2018	**2017**
Average supplier payment period	19	10
Transactions paid ratio	19	10
Transactions pending payment ratio	19	22

	Amount (thousand Euro)	
	2018	**2017**
Total payments made	245,614	281,418
Total payments outstanding	10,405	5,643

72. Business combinations and the acquisition of participation in Dependent, Jointly-controlled and Associated Entities

a) Information on acquisitions of equity in Dependent, Jointly-controlled and Associate Entities

In 2018 there were no acquisitions in the share capital of Subsidiary, Jointly Controlled and Associated Entities of any significance to the Group.

b) Business combinations

During 2018, there were no business combinations of relevance to the Group.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

ANNEX I

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 December 2018
(Expressed in thousands of euros)

			2018									
			Ownership interest %		Carrying amount			Investee earnings data (*)				
Company	Address	Business activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Income from services/ sales	Net profit (loss)
Subsidiaries:											
Seguros Lagun-Aro Vida S.A. (a)	Bilbao	Insurance	76%	24%	25,943	-	25,943	547,346	64,825	56,608	3,021
Seguros Lagun-Aro S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	226,467	65,493	93,375	7,062
Caja Laboral Gestión S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	13,656	8,888	19,096	1,352
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,303	2,650	2,974	44
Caja Laboral Euskadiko Kutxa Cartera S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	61,166	61,162	-	(15)
Caja Laboral Bancaseguros O.B.S.V. S.L.U.	Bilbao	Banking-insurance operator	100%	-	10	-	10	13,089	4,180	39,758	1,790
Sociedad Gestión Activos Caja Laboral S.A.U.	Mondragón	Property Asset Manager	100%	-	4,968	(4,000)	968	7,751	7,330	1,672	836
ISGA Inmuebles S.A.	Mondragón	Property Asset Manager	100%	-	88,914	(60,840)	28,074	191,038	157,116	95,253	6,569
					205,938	(64,840)	141,098				

			2018								
			Ownership interest %		Carrying amount			Investee earnings data (*)			
Company	Address	Business activity	Direct	Indirect	Gross	Impairme nt	Net	Assets	Equity	Income from services/ sales	Net profit (loss)
Associated Companies											
ICR Institutional Investment Management SGIIC S.A.	Madrid	Investment fund manager	21.43%	-	30	-	30	795	201	989	(783)
					30	-	30				

(a) As at 31 December 2018 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to 8,565 thousand euros.
(*) The above figures for equity relate to the standardised financial statements of the investee entities as at 31 December 2018.

This appendix forms an integrated part of Note 27 to the consolidated annual accounts and should be read together with it.

ANNEX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AS AT 31 DECEMBER 2017
(Expressed in thousands of euros)

			2017									
			Ownership interest %		Carrying amount			Investee earnings data (*)				
Company	Address	Business activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Income from services/ sales	Net profit (loss)
Subsidiaries:											
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	25,943	-	25,943	546,386	65,361	69,886	2,319
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	220,394	59,873	92,280	6,971
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	12,753	8,458	16,128	921
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,399	2,665	2,975	66
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	64,645	64,637	3,485	3,469
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	Bilbao	Banking-insurance operator	100%	-	10	-	10	12,654	4,091	35,746	1,702
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Property Asset Manager	100%	-	4,968	(4,000)	968	8,002	7,182	2,998	(29)
ISGA Inmuebles, S.A.	Mondragón	Property Asset Manager	100%	-	108,085	(61,445)	46,640	225,225	190,282	50,462	(21,854)
					225,109	(65,445)	159,664				

			2017								
			Ownership interest %		Carrying amount			Investee earnings data (*)			
Company	Address	Business activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Income from services/ sales	Net profit (loss)
Associated Companies											
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	21.43%	-	30	-	30	1,123	985	1,482	217
					30	-	30				

(a) As at 31 December 2017 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to 8,565 thousand euros.
(*) The above figures for equity relate to the standardised financial statements of the investee entities as at 31 December 2017.

This appendix forms an integrated part of Note 27 to the consolidated annual accounts and should be read together with it.

ANNEX II

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AT 31 December 2018 AND 2017

Name	Address	ID Code	Date of grant of powers	Date of finalisation of mandate	Geographical scope	Scope of powers
Caja Laboral Banca Seguros O.B.S.V., S.L.U.	Gran Vía Don Diego López de Haro, 2- Bilbao	B 75060988	01/01/2013	Indefinite	Domestic	- Handle operations involving current accounts, savings accounts, term deposits, investment funds, pension plans and welfare plans, signing all necessary documents. - Process loans and other risk operations for the Entity. - Correspond with the Entity and keep in contact with the public, organising the work in the timetable and the form it considers appropriate, in accordance with rules and instructions received from the Entity

CAJA LABORAL POPULAR COOP. DE CRÉDITO **ANNEX III**

ANNUAL BANKING REPORT

Information at 31 December 2018 on the Laboral Kutxa Group in compliance with Law 10/2014 and EU Parliament and Council Directive 2013/36/EU

The present information has been compiled in compliance with the provisions of Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014, which transposed Article 89 of European Parliament and Council Directive 2013/36/EU of 26 June 2013 relating to access to the business of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (commonly known as CRD IV).

In accordance with said regulations, credit institutions are required to report to the Bank of Spain and publish annually, specifying for the countries in which they are established, the following consolidated information for each financial year:

a) Name, nature and geographical location of the activity.
b) Business volume.
c) Number of full time employees.
d) Gross profit/(loss) before taxes.
e) Corporate income tax.
f) Grants or public aid received.

Therefore, the above-mentioned information is set out below:

a) Name, nature and geographical location of the activity

Caja Laboral Popular Coop. de Crédito (hereinafter the Parent Entity, Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was formed on 2 November 2012 as a new credit cooperative as a result of the merger, through the formation of a new entity, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. This entity is a qualified cooperative.

The Bylaws of the Group's Parent Entity state that its business operations will not be limited to any specific territory and that its corporate purpose is to service the financial needs of its owners and third parties by carrying out the activities typical of credit institutions. To this end, it may carry out all kinds of lending, borrowing and servicing operations which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Appendix I to these consolidated Annual Accounts of the Laboral Kutxa Group for the year ended 31 December 2018, lists the companies operating in each jurisdiction, including among other details their names, geographical location and area of activity.

b) Business volume, number of full-time employees, gross profit before taxes and corporate income tax

	Business Volume (000 Euros)	No. equivalent full time employees	Gross income before taxes	Corporate income tax
Spain	394,740	2,156	138,878	14,705
TOTAL	**394,740**	**2,156**	**138,878**	**14,705**

For the purposes of this information, "business volume" is considered to be the gross margin disclosed on the consolidated income statement for December 2018. The data for equivalent full time employees has been obtained from information on the workforce of each company/country at the end of 2018.

The return on the Group's assets calculated as net profits attributed to the Parent Entity divided by total assets as at 31 December 2018 stood at 0.54%.

c) Grants or public aid received

Grants and public aid received by the Laboral Kutxa Group during 2018 were not significant.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED DIRECTORS' REPORT FOR 2018

The IMF forecasts regarding the evolution of GDP at a world level for 2018 are for a growth of 3.7% with a decline of one tenth with respect to 2017.

2018 was dominated by the introduction of protectionist measures by the United States and the ensuing trade retaliation by the countries affected. This situation could have a direct impact not only on growth in the short term, but also on investment due to the uncertainty generated.

In addition, the variability in oil prices during the year is significant, with increases in the first three quarters and cumulative increases of 20% with respect to the 2017 closing prices and with a steep fall in the fourth quarter, prices were 15% below the beginning of the year. At the same time, the euro has depreciated against the dollar by more than 4.5%, maintaining the trend shown since 2015 (although in 2017 it rose very slightly).

In the United States, in relation to monetary policy, in December the FED agreed a fourth interest rate hike in 2018, bringing it within the range of 2.25% to 2.50%. In spite of this, it is expected that the United States will end 2018 with growth of 2.9%. This translates into the best unemployment rate in 50 years, which could exacerbate inflationary pressure.

For the euro zone, the IMF expects a slowdown in growth, going from 2.4% in 2017 to 1.8% in 2018. Political tensions derived from Brexit and political instability in countries such as Italy, Spain and France are seen as the main risks.

The ECB did not change interest rates in 2018 and continued to apply unconventional monetary measures, albeit to a lesser extent than in 2017.

The Spanish economy will remain in its recovery phase but the rate of growth will slow down by around half a percentage point on average, standing at 2.2% in 2018, according to the Government. With growth above the potential of the economy, the unemployment rate will continue to fall and price growth will continue its slow convergence towards the 2% level desired by the ECB, although inflation in 2018 has closed at 1.2%.

In turn, the Basque economy in 2018 maintains the growth pattern of the country's economy with an expected growth rate of 2.8%, which will bring the unemployment rate to around 9.7%, with inflation at the end of 2018 at 1%. This growth is particularly driven by consumption, which is supported by better employment performance and, to a lesser extent, by industry, which is hampered by the slowdown in exports.

The transparency tests published this year by the European Banking Authority (EBA) have shown an improvement in the capitalisation of European banks as well as a reduction in the levels of non-productive assets, in line with what was published in 2017. The low profitability of business remains the sector's greatest weakness.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED DIRECTORS' REPORT FOR 2018

In the context of the banking sector in Spain, in 2018 the reduction in credit to the private sector was repeated as in previous years, although this fall was softened thanks to the sustained growth of consumer finance and non-real estate companies.

The reduction in doubtful assets continued with a decline in the ratio of doubtful loans in the private sector, which stood at 5.84%, with significant reductions due mainly to portfolio sales during the year.

Deposits grew by 1.5%, reflecting a progressive transfer from time deposits to on demand accounts which at the end of 2018 are expected to represent more than 80% of total deposits.

Regarding the profitability of the banking business, the expected net profit at the close of 2018 is 13,900 million euros compared to the 3,900 million losses of the previous year due to the impact of the Banco Popular solution. The net interest income of the sector continued to fall (2.15%), although to a lesser extent than in previous years and the growth of commissions above 6% allows the gross margin of the sector to be improved.

The sector managed to continue adjusting its conversion costs, reducing them by 10%. Provisions and asset impairment drained 8,000 million euros compared to 22,000 million in 2017.

With regard to the solvency of institutions, CET1 is expected to be 11.8% at the end of 2018 compared to 12.7% the previous year.

In this context, the Laboral Kutxa Group has managed to compensate the reduction in financial activity margins, thanks to a containing expenditure policy and to its high quality loan portfolio, reinforcing its high level of solvency.

The key figures of the business are set out below:

Total assets amounted to 22,989.3 million euros, a 2.47% increase on the previous year's figure.

Customer deposits amounted to 19,481.1 million euros, 4.66% more than at the end of 2018, mainly due to the increase of 918 million euros in demand deposits, 6.86%, due in part to the transfer of funds from time deposits, which reduced their balance by 411.3 million euros.

Loans and advances to customers amounted to 13,252.7 million euros at the close of 2018. Excluding the effect of the change in other financial assets, the traditional lending activity has declined by 0.95% although there has been a major increase in home loans, consumer loans and lending to companies.

The number of doubtful risk loans to customers fell 11.39% and the non-performing loans ratio under the heading "Other resident sectors" fell to 4.51% at the end of 2018, which is significantly lower than the sector average, which for deposit institutions stands at 5.84%.

Also, the classification and valuation of the fixed-income and equity portfolios changed in 2018 compared to 2017, as a result of the application of IFRS 9, as shown in Note 2.3 of these consolidated annual accounts. Financial assets at fair value with changes in other comprehensive income and debt securities at amortised cost account for 1,136 and 5,542.5 million euros, respectively, with the portfolio at amortised cost accounting for 24.1% of the balance sheet total.

Productivity and liquidity indicators continue on sufficient levels in both absolute and relative terms. The efficiency ratio, measured as administration expenses/gross income pre-FEPC, stood at 56.2% in 2018 and the structural liquidity ratio, calculated in terms of loans/deposits, stood at 74.6%.

With regard to solvency, the Group's computable capital as at 31 December 2018 amounted to 1,631.9 million euros. The CET1 ratio, Common Equity Tier 1, stands at 18.76%, one of the most outstanding in the sector and coinciding with that of total solvency.

On the income statement, the following income and expense items should be noted:

Profit net of tax was 124.2 million euros in 2018, reaching 133.7 million euros in profit prior to the allocation to welfare projects, exceeding the forecasts in the Group's Management Plan.

Despite an environment of interest rates as low as the current one, which has a direct influence on the first margins, income from interest rose to 246.5 million euros.

The sum of the dividend headings, net fees, gains obtained from the revaluation and disposal of financial instrument portfolios, together with other operating income and derivatives from the insurance business, contributed 148.2 million euros in 2018, bringing the gross margin to 394.7 million euros.

In terms of costs, the Group has continued its policy of containment and rationalisation of costs, which has led to a 2.29% reduction in administrative expenses, which stands at 227 million euros.

The effect on results of impairment losses together with provisions and income from non-current assets held for sale is quantified at 11.7 million, with a reduction in provisions for loans and receivables and the attainment of profits on foreclosed assets. In this respect, the Group has maintained its traditional valuation policy.

Details of the Group's main risks are given in Notes 15 to 21 to the 2018 annual accounts.

The insurance business contributed global results of 38.9 million euros to the Laboral Kutxa Group, as a result of the increases in premiums obtained, especially in the home and life risk branches.

In the real estate sector, the process of reducing risk positions continued in 2018 with the real estate development and construction business falling by 130.8 million euros to 802.8 million euros at the end of the year, with associated hedges exceeding 67% of this balance.

Once again, low interest rates will erode the profitability levels of credit institutions in 2019. Therefore, the lower need for provisions due to the reduction in non-performing loans, such as cost reduction policies and the appropriate management of non-performing assets, will be key.

In this scenario for next year, the company forecasts a slight increase in net interest income for the first time in recent years, especially as a result of the greater formalisation of loans and advances and proper management of prices and margins. It is also expected that the gross margin will remain in line, together with the anticipated reduction in administrative expenses and the lower need for provisions it is estimated that after-tax profit will be slightly higher than in 2018.

In terms of turnover and intermediated funds, the cost of liabilities will remain low, which will maintain the transfer of term balances to sight that has already taken place in recent years together with the increase in off-balance sheet funds.

An increase in consumer credit and risk amounts for non-real estate companies is foreseeable. There will be a significant increase in the level of housing loan transactions with sufficient intensity to allow balances in this section to be maintained, which, together with the increase in the balance of credit to the commercial sector, will lead to a slight increase in the amount of credit investment.

The volume of doubtful risk will continue to decrease due to the reduction of entries into arrears which will lead to a further reduction in the doubtful debt ratio of around half a percentage point.

In a market environment dominated by zero and negative interest rates and difficulties in making the income statement profitable, the basic strategic approach remains twofold. First, on the commercial side, the focus will continue to be on optimising recurrent revenues, combining business growth with strict cost and price controls. On the other hand, structurally, the search for efficiency, productivity and the adjustment of operating costs will be strengthened and, at the same time, the commercial model and organisational structure will be aligned with the business environment, which requires proactive adaptation to the accelerated advance of digitalisation and omnicanality in the banking business.

The average payment time to suppliers during 2018 was 19 days, below the maximum legal period of 30 days established in Law 15/2010 dated 5 July, which sets out measures to combat late payment in commercial transactions, amended by Law 31/2014 dated 3 December, which amends the Law on Capital Companies to improve corporate governance, and taking into account the Single Additional Provision of the Resolution dated 29 January 2016 by the Institute of Accountants and Auditors. The average payment period has been calculated in accordance with said law.

Law 11/2018, dated 28 December, on non-financial information and diversity regulates the disclosure of information on these two aspects. Caja Laboral, as a public interest entity, has published in an additional document, which forms part of the Consolidated Management Report, the Statement of Non-Financial Information relating to the Caja Laboral Group that responds to the obligations contained in the above-mentioned regulations.

In addition, both LABORAL Kutxa and the two insurance companies that make up Seguros Lagun Aro publish annual Corporate Responsibility Reports, in accordance with international standards, which can be used to provide more detailed information on these matters.

In accordance with current legislation, the Annual Corporate Governance Report of Caja Laboral Popular is attached as an Appendix to the Consolidated Management Report.

NON-FINANCIAL
INFORMATION STATEMENT

20 February 2019

1. GENERAL INFORMATION

This Statement is produced in compliance with Law 11/2018, dated 28 December, on non-financial reporting and diversity, also taking into account the European Commission Communication 2017/C 215/01 on non-financial reporting guidelines.

It concerns the consolidated Group and includes both banking and insurance activities. Caja Laboral Popular Coop. de Crédito (henceforth, LABORAL Kutxa, and with headquarters in Mondragon, Paseo JM Arizmendiarrieta 4 20.500 Gipuzkoa) and the two insurance companies that make up Seguros Lagun Aro, publish annual Corporate Social Responsibility (CSR) Reports in accordance with international standards, in which it is possible to consult in greater detail the information presented here. The LABORAL Kutxa CSR Report also includes information on Caja Laboral Bancaseguros, OBSV, an investee company dedicated to insurance brokerage, the people of which, from the former network of Seguros Lagun Aro offices, have been carrying out their commercial work in the LABORAL Kutxa offices since 2013. Throughout this Statement, the information on Bancaseguros is only presented for those cases in which it is not included within that of LABORAL Kutxa. Information on the two insurance companies will be presented in a unified manner. For the rest of the companies, due to their organisation and activity, the information is included with that of LABORAL Kutxa, unless there is a specific aspect that requires separate reporting.

This statement takes a concise approach to the disclosure of the most significant information. This information is presented following the standards of the Global Reporting Initiative (GRI), which are the standards that LABORAL Kutxa uses and audits for the preparation of its CSR Report, which serves as the basis for this Statement. The data referring to the two companies that make up Seguros Lagun Aro are presented in a grouped format.

1.1. DESCRIPTION OF THE BUSINESS MODEL

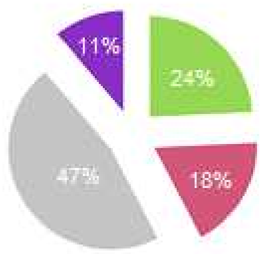
LABORAL Kutxa, is shown on its corporate website as ***a solid and responsible model of cooperative and participative banking.*** *“LABORAL Kutxa represents a different way of banking, based on cooperation and commitment to our society. Our main objective is the satisfaction of each client and the generation of wealth and employment in our environment. We are a Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society.”*

It is a credit cooperative in which the majority of the capital is held by the cooperatives of the MONDRAGÓN group and by working or retired members (collaborative partners).

SHARE CAPITAL AT 31/12/2018
741.4 M EUROS

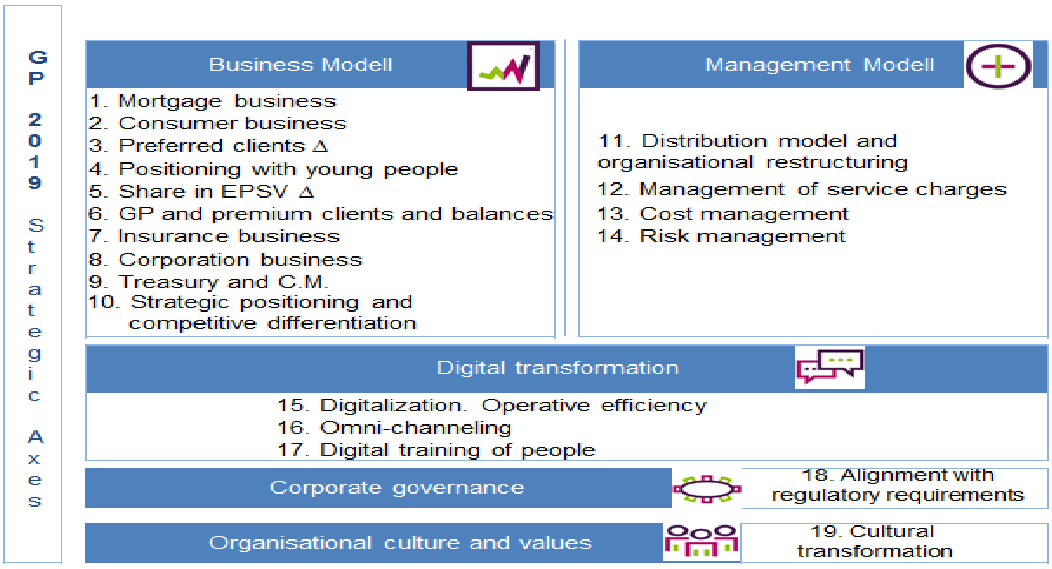
Distribution by type:

- **Working partners**
- **Collaborative partners**
- **Other individuals**
- **Associated cooperatives**



PRODUCTS AND MARKETS

The attached graph describes the basic concepts identified in the strategic analysis and which describe the priority products-markets in our activities during the financial year.



The distribution of the offices by geographical areas where LABORAL Kutxa operates is as follows:

Geographical area	Number of offices for Private individuals	
	2017	2018
Araba	33	31
Aragon	19	18
Asturias	10	9
Bizkaia	92	89
Cantabria	4	4
Castille and Leon	38	34
Catalonia	1	1
Gipuzkoa	69	67
La Rioja	8	7
Madrid	9	9
Navarra	41	40
Regional Administration 1	**172**	**160**
Regional Administration 2	**152**	**149**
Total number of offices	**324**	**309**

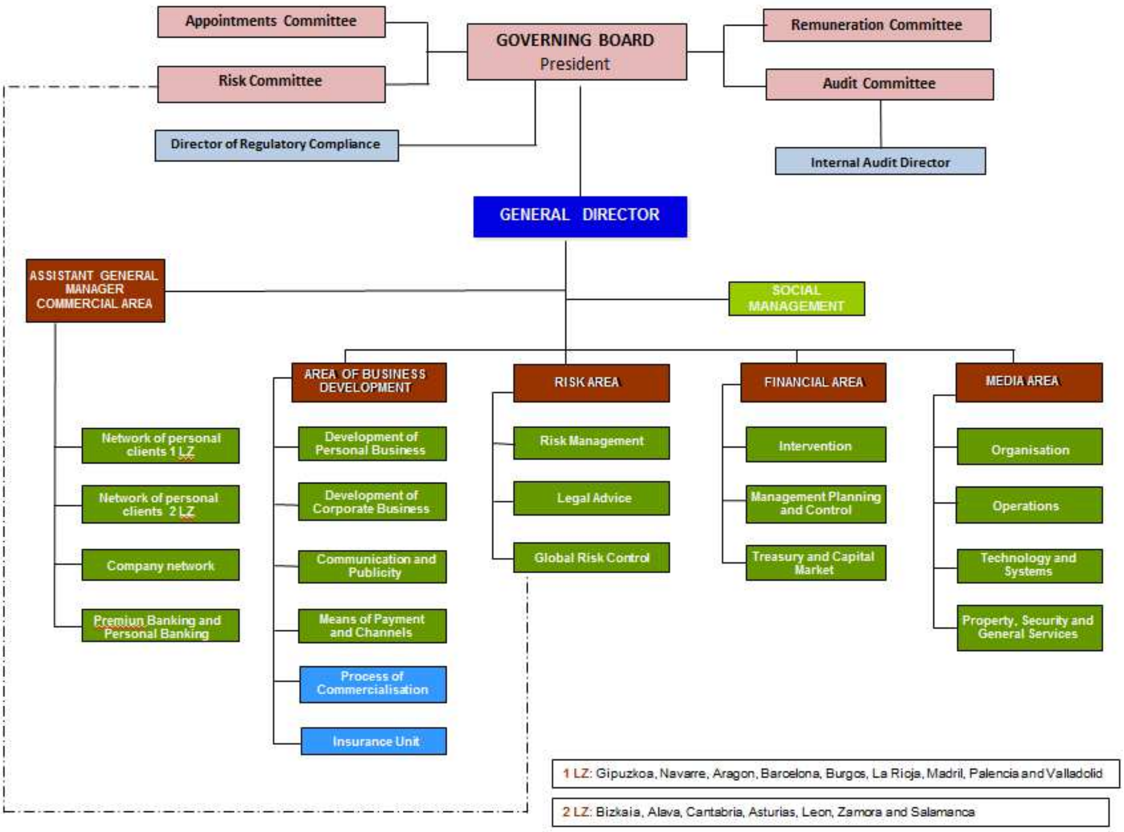
It also has a specialised network of companies (to which must be added the Cooperatives and Large Companies office and the Public Sector office), with the following distribution:

Geographical area	2017	2018
Gipuzkoa	2	2
Navarra	1	1
Madrid	1	1
Castille and Leon	1	1
Bizkaia	3	3
Araba- La Rioja	1	1
Total number of offices	**9**	**9**

Number and geographical distribution of private individual offices

ORGANISATIONAL STRUCTURE

The structure of LABORAL Kutxa as at 31/12/2018 is basically organised into 5 large functional Divisions, which in turn are divided into the various departments, sections, areas and network of offices.



INVESTEE COMPANIES

Below are the investee companies that make up the LABORAL Kutxa Group:

Dependent Entities	Activity	% Owned	Headquarters
Seguros Lagun Aro Vida, S.A.	Insurance	100%	Calle Capuchinos de Basurto nº 6, 2º, 48013 Bilbao (Bizkaia)
Seguros Lagun Aro, S.A.	Insurance	100%	
Caja LABORAL Gestión SGIIC, S.A.	Investment fund manager	100%	Paseo José María Arizmendiarrieta 5, 1ª Arrasate-Mondragon 20500 Gipuzkoa
Caja LABORAL Pensiones GFP, S.A.	Pension fund manager	100%	Paseo José María Arizmendiarrieta SN Edificio 5 1ª Arrasate-Mondragon 20500 Gipuzkoa
ISGA Inmuebles, S.A.	Real Estate Developer	100%	Paseo José María Arizmendiarrieta 4 Arrasate-Mondragon 20500 Gipuzkoa
Caja LABORAL Euskadiko Kutxa Cartera, SLU	Holding company	100%	
Sociedad Gestión Activos Caja LABORAL, SAU	Property Asset Manager.	100%	
Caja LABORAL Bancaseguros O.B.S.V., S.L.U.	Banking Insurance Operator	100%	Calle Gran Via Diego Lopez de Haro, 2 - PISO 1, Bilbao, 48001 , Bizkaia
Associated Companies			
ICR Institutional Investment Management SGIIC, SA	Investment fund manager	21.43%	Calle Velázquez, 14 - BJ DR, Madrid, 28001 , Madrid

LABORAL Kutxa incorporates the insurance activity within a strategy of Banking and Insurance, so that the Group companies (Seguros Lagun Aro SA in the Non-Life areas and Seguros Lagun Aro Vida) market their products for the most part through the offices and the website of LABORAL Kutxa. Seguros Lagun Aro complements these banking channels with a network of selected brokers.

In the Private individuals offices there are LABORAL Kutxa staff, as well as staff from its subsidiary **Caja Laboral Bancaseguros SLU, associated banking and insurance operator - CLBS. CLBS** incorporated all the people coming from Seguros Lagun Aro who were part of the Sales Network of the "Direct Channel" of Seguros Lagun Aro, and also some other support people, basically in Marketing activities.

1.2. DESCRIPTION OF GROUP POLICIES

LABORAL Kutxa includes the following instruments for analysis, risk control and supervision:

Committee/Organisation	Duties	Year of est.
Structure of the administrative body		
Governing Board	Senior management, supervision of Management, representation of the Company. Analyses annually the aspects related to CSR and the impacts, risks and economic and social opportunities on a continuous basis.	1960
Resources Committee	Statutory body responsible for resolving appeals against certain decisions of the Governing Board. Elected at the General Meeting	1993
Audit Committee	Supervises internal audit services, knows the financial reporting process and internal control systems, supervises compliance with codes of conduct and corporate governance rules	2004
Appointments Committee	Identifies candidates for the Governing Board, evaluates the suitability of its members and the balance of knowledge, skills, diversity and experience of the group. Pursues an objective of representation of the underrepresented sex.	2012
Risks Committee	Advises the Governing Board on the management and supervision of all significant risks and on the monitoring of the application of the global propensity for risk appropriate to the Company's strategy.	2015

Remuneration Committee	Proposes to the GB the general remuneration policy, ensuring an independent annual evaluation of its application and informing it of the remuneration policy of the executives included in the "identified group".	2016
Supervisory and advisory bodies		
Social Council	Employment system, advice to the Governing Board and General Management	1960
Customer Service	Management of customer queries, complaints and claims.	1994
Health and Safety Committee	Consultative body on Occupational Risk Prevention.	1996
Hizkuntza Batzordea	Committee for linguistic standardisation.	2000
Environment Committee	Environmental System Management.	2001
Money Laundering Prevention Committee	Control and communication body for the Prevention of Money Laundering.	2003
CSR Committee	A Board of Directors' delegated body dealing with CSR and with the presence of members from the various Divisions. Approves the CSR Report. It is chaired by the Quality Director, who gives an annual statement to the Gov. Board.	2008
Global Risk Control and ALCO	Control of liquidity, interest rate, credit, market and operational risk. The ALCO is the Assets and Liabilities Committee.	2008
Equality Committee - Berdintasuna	Promotes and guarantees equality between women and men and monitors the current Equality Plan.	2009
Operational Risk Committee	Global control of operational risk	2010
Ethics Committee	Ensure the application of the principles and values that govern the business, primarily those included in its *Code of Ethics and Professional Conduct*	2015
Products Committee	In applying MiFID, it evaluates and approves the risks of each product offered to the clients.	2015
Integrated Security Committee	Ensures a comprehensive security strategy, both physical and logistical.	2015
Projects Committee	Orders and prioritises the priority interdepartmental projects to ensure their success	2017

In order to avoid conflicts of interest between the Company and the members of the Governing Board, in addition to the rules on incapacities and incompatibilities established in the Articles of Association and the Internal Code of Conduct for the Securities Market, there is a specific provision in the Governing Board's Regulations concerning the voting system for adopting resolutions in which such conflicts may arise.

These procedures, which have been included in previous Reports, consider:

- Incapacities and incompatibilities of the members of the Governing Board.
- Code of Conduct for the Securities Market.
- Regulation of the Governing Board's Regulations to avoid conflicts of interest.

The **Ethics Committee's** mission is to promote the ethical behaviour of LABORAL Kutxa in all its activities. It is an autonomous body reporting to the General Manager that is established as a channel for the *Complaints Management System* regarding breaches of the Code of Ethics and professional conduct, as well as in criminal matters and as a manager in disciplinary proceedings. Every year it submits an *Evaluation Report* to the Board of Directors in the event of any problematic situation. The Committee is made up of 6 people, currently 4 men and 2 women.

Each year, the **Appointments Committee** performs a continuous assessment of the individual suitability of the members of the Governing Board (their integrity, knowledge, experience and willingness to exercise good governance) and of the balance of knowledge, ability, diversity and experience of the Board as a whole. Also, the evaluation report on the structure, size, composition and performance of the Governing Board is presented in the same Committee on an annual basis.

With respect to the **Risk Committee,** the Company conducts an annual review, based on its strategy and the level of health of its financial situation, of risk tolerance levels in what is known as the *Risk Appetite Framework*, tolerance levels that refer to capital, liquidity and profitability, and the monitoring of which is carried out with a series of indicators that are reported to the banking regulator. In addition, the Governing Board annually approves the *Credit Risk Policy Manual*, which includes risk policies, procedures and criteria.

In 2017, the Board of Directors approved a new **Projects Committee**, whose purpose, supported by a *Project Office*, is to improve the management of those projects defined as priorities within the Annual Management Plan.

At Seguros Lagun Aro the final responsibility for the management, control and mitigation of risks lies with the Executive Board and the Senior Management. Both are responsible for:

- The communication of general principles and documented management policies, including the design and updating of the risk management framework.
- The definition, understanding and periodic review of the exposure profile that the Company wishes to assume at any given time depending on the business strategy that has been defined.
- Ensuring the suitability and periodic review of the limit structure of the different risks, taking into account the desired exposure profile.
- Ensuring an adequate organisational structure of the risk management: Assigning responsibilities, ensuring that there are no conflicts of interest through the appropriate segregation of duties
- Approving risk management policies, ensuring that they include the functions assumed by each body in relation to risk management and control, the hierarchical link between functions and the reporting lines.
- Ensuring the independent review of the risk management framework and the incorporation of recommendations made by Internal Audit.

Independently of the members of the administrative and management bodies, Seguros Lagun Aro has defined the following fundamental functions of the governance system:

✓ **Risk management function**

- Defining the methodologies and indicators to be used for the measurement and evaluation of risks and assisting in their implementation.
- Working with the technical divisions in the identification and categorisation of risks and preparing the Company's risk matrix.
- Carrying out periodic evaluations on the impact that future scenarios and stress situations would have on the level and solvency of the Company.
- Assisting the technical departments in applying the methodology and the underwriting risk measurement and evaluation models.
- Evaluating the structural mismatch between assets and liabilities

- Evaluating the adequacy and integrity of the information used to quantify risk
- Actively participating in the new product approval process
- Leading the process of internal evaluation of risks and solvency of the Company, being responsible for preparing the appropriate report.

✓ **Regulatory compliance function**

- Determining and assessing the risk of regulatory non-compliance and keeping the regulatory risk map up to date
- Advising on new products, services and markets from a regulatory point of view
- Verifying the preparation, coordination and execution of the Compliance Plan
- Ongoing training for staff on regulatory compliance within the Company itself.

✓ **Internal audit function:** Its main responsibility is to verify the adequacy and effectiveness of the internal control system and the different elements of the Governance System.

✓ **Actuarial function**

- Coordinating and reviewing the calculation of Technical Provisions
- Expressing an opinion on the underwriting strategy of each Company
- Expressing an opinion on reinsurance agreements and retention strategy
- Contributing to the effective implementation of the risk management system

For each of the above-mentioned functions, there are written policies approved by the management and governing body of the Company which define, among other things, the tasks and responsibilities with a suitable distribution and a clear separation of functions in accordance with the current Solvency II regulations on independence.

The strategic analysis in LABORAL Kutxa follows an annual cycle, within a *Directionalisation* process that systematises *competitive surveillance* in the various markets and the review of business models and strategic commitments, which are then developed in each Management Plan.

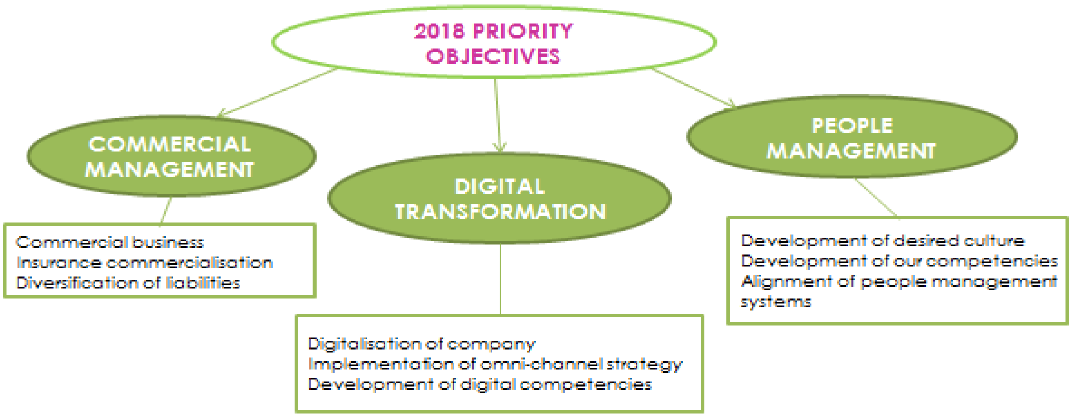
In the review of the strategic analysis carried out in 2018, the greatest risks identified in the market environment remain economic: zero and negative interest rates and difficulties in making the profit and loss account profitable. The greatest opportunities are in the speed of adaptation to the digital transformation of the banking business, although no disruptive changes are detected.

Specifically, the priority for 2018 has been to defend the income statement, thus, the basic strategic **approach** is twofold.

- Commercially, the **optimisation of recurring margins**, combining business growth with strict cost and price control.
- In terms of structure, the search for **efficiency, productivity and alignment of operating costs,** promoting actions to modify the workforce. In parallel, aligning the business model and organisational structure to a business environment that generates

less profit and requires an anticipatory adaptation to the accelerated advance of **digitisation** and **omni-channels** in the banking business.

Success or failure in these strategies is linked to the speed of adaptation to the digital environment that is transforming customer behaviour and the banking business model, thus, digital transformation is a key priority. Digital transformation of both the relationship with customers and of the internal processes, and in which the challenge of developing the digital skills of our working partners will be a key factor in the quest for excellence in the omni-channel relationship with customers.



As regards risk management, a detailed description of the different basic risks can be found in the annual *Information of Prudential Relevance,* which details the trends and impact on the business of the most important risks: credit, market, operational, interest rate, as well as the risk profile and management mechanisms applied.

The opportunities in the commercial activity are identified in income-generating businesses, specifically, commercial business of all segments (SMEs, micro-enterprises, businesses and self-employed), insurance, and (in the area of liabilities) advice and diversification towards the commercialisation of Investment Funds and off-balance sheet items:

- In both the commercial and insurance businesses, the promotion of commercial activity entails the enhancement of the capillarity of our offices and the specialisation of our managers, as well as the development of areas identified in the **Onenak 4.0 project**: commitment to multi-channel customer relations, excellence in commercial processes and manager empowerment.
- In the management of our customers' savings, we aim to accelerate the transformation of the business model, from the sale by the manager in the office of simple and undifferentiated products such as term deposits, to the management of a complex diversification, based on investment funds and other long-term savings and investment products, supported by strict protocols to guarantee the customer's knowledge and the suitability of the product offered.

In relation to the **system of advice and interaction**, the adaptation of processes and systems to the MiFID 2 standard, improvements in support systems and the promotion of the remote relationship model are particularly important. Always maintaining prudence in the preparation of model portfolios.

In terms of **organisation**, the strategic analysis revised in July 2018 identified opportunities to optimise both the commercial structure and that of the Central Services departments. Along the same lines as improving productivity, the commercial model is also adjusted to the **Onenak 4.0 project,** mentioned above, and progress is being made towards increasingly integrated insurance management, incorporating the new feature of having a significant number of polyvalent insurance managers.

Important decisions were also taken in the **technological** field in 2017, which have continued to be implemented in 2018. The *Zabaltek* project involves replacing the *core infrastructure* that supports banking operations by using open systems in order to face with certainty the new challenges arising from the exponential growth of digital banking.

The organisational objective is to substantially improve the **efficiency** and **productivity** of the organisation, simplifying the organisational chart, but also taking advantage of the efficiency improvement possibilities that can be achieved thanks to the digitalisation of processes and customer relations.

In addition, each year Seguros Lagun Aro draws up its Management Plan, which establishes objectives and action plans, in accordance with the balance of quantitative indicators in its management *scorecard* as well as qualitative conclusions.

In drawing up the Management Plan, both the corporate environment (LABORAL Kutxa) and the sectoral challenges are taken into account: simplification/technology, products and excellence, distribution, after-sales service, profitability, emerging risks... In doing so, we find ourselves in a market that requires simple products and processes, with intensive use of technology for the automatic generation of quotations and digital verification of risks; specific products/cover; synergies between traditional channels and the digital world; speedy resolution of claims with technological support (virtual expert reports, continuous customer information)... In this environment, customer experience, synergy between traditional channels and the digital world, cooperation in fraud detection, appropriate underwriting policy and cost control are fundamental... We are also faced with risks such as climate change and emerging risks such as cyber attacks, data protection and the environment.

TRANSVERSE CONCEPTS AND AREAS

As part of the Group's strategy, we also devote considerable effort to projects that cut across the various areas of the organisation. These projects are aligned with the ***Sustainable Development Goals*** **(SDG)** and the 2030 Agenda.

LABORAL Kutxa, is a cooperative credit union in which working people are members and owners of the company with full rights and obligations, both in observing their professional functions, and in the right to participate in management through the relevant bodies and in business results.

It therefore applies a people participation model in the company that includes the three areas that are usually distinguished: ownership, management and results. The **Cooperative**

Education training programmes reinforce the cooperative identity of the members, and encourage the integration and socio-entrepreneurial involvement of new members.

In the Social Responsibility Report we explain the behaviours which reflect our differentiated values, as summarised in the following table.

WHAT DIFFERENTIATES US FROM OTHER BANKS AND SAVINGS BANKS?

WE ARE A COOPERATIVE CREDIT UNION	The people who serve you at LABORAL Kutxa are members of the organisation, we are committed to the project and believe in it, so we are dedicated to giving each person the best service. Customer satisfaction is the best guarantee for our business plans.
GIVING BACK TO SOCIETY. USEFUL BANKING, COMMITTED TO OUR SOCIETY	Our dividend is what we give back to society: 25% of our distributable surpluses are used to finance projects of economic and social interest, training and job creation. The rest we reinvest in the entity to strengthen its solvency and its future development.
WE ARE WORKERS, PARTNERS AND STAKEHOLDERS	LABORAL Kutxa is not listed on the stock exchange, it is not subject to speculative pressure from the financial markets. All partners participate in the capital and in the decisions of the organisation, with responsibility, assuming the consequences of our management. The key decisions are validated at the General Meeting with the participation of all partners, guaranteeing an efficient and responsible management that allows us to obtain profits and reinvest them in our society.

In the 2018 Management Plan, we highlight the strategic importance we attach to the following initiatives, all of which are related to Sustainability and Social Responsibility:

- Our dedication to emerging initiatives is significant, such as Socially Responsible Investment, which in our case is aimed at monitoring the social and environmental effects of the projects we finance and the activities of the companies in which we invest.
- With regard to people management, our approach is ambitious in aspects such as:
  - Health and Safety at Work, having renewed the OHSAS certification in 2018 and having started a healthy company programme called Zainduz.
  - Encouraging the use of the Basque language as the working language.
  - The achievement of effective equality between women and men.
- Within environmental management, the focus is on continuous improvement, with emphasis on ongoing investments to improve the environmental efficiency of our buildings. Thus, in 2018, the renovation of the main building (LK1) of the Central Services in Mondragon was completed, which includes the installation of energy sources using technologies that are especially respectful of the environment and do not generate CO2 emissions, in the form of geothermal energy and biomass. The investment required has been substantial, as it has required the construction of an additional auxiliary building.

  In addition, we have installed state-of-the-art insulation and lighting. As a result, we have achieved the highest energy efficiency rating for the LK1 main building. These investments are also applied in the reforms carried out in branch offices and regional offices (Bilbao and Pamplona in 2018).

There is a CSR Committee with participation from the various Divisions of the Company and the insurance companies, whose mission is to govern these activities and which reports to the highest management body, the Governing Board, so that the latter can supervise both environmental and social policies.

DIFFERENCES IN INSURANCE BUSINESS

Seguros Lagun Aro is a limited company, 100% owned by LABORAL Kutxa. Thus, even when the employees do not own the company, they participate in the management and business results. They do this:

- through a universal Individual Variable Remuneration, and
- a Collective Variable Remuneration applicable to people with an indefinite contract (close to 100% of the workforce) voluntarily joining a company formed precisely to enable the participation of workers in the results of the company.

At the same time, the 2018 Management Plan of **Seguros Lagun Aro** highlights the strategic importance of some initiatives related to Sustainability and Social Responsibility:

- As far as people in the organisation are concerned, just as we have commented for LABORAL Kutxa, the management in the insurance company prioritises:
  - The promotion of health.
  - Encouraging the use of the Basque language as the working language.
  - The achievement of effective equality between women and men.
- From the point of view of customer relations,
  - The proposal of new products and services and the search for customer satisfaction with respect to these.
  - A reduction in written communications, with its consequent environmental impact.

The Group's insurance companies, Seguros Lagun Aro and Seguros Lagun Aro Vida, although having a legal status as a joint-stock company and not as a cooperative company, share a large part of the ways of doing business and cooperative values.

Seguros Lagun Aro is part of the *European mutual and cooperative insurance association - EURESA,* and shares the values of mutuality and cooperation that this Association defends and is, therefore, committed to:

- applying the guiding principles of the societal economy in all its activities,
- designing products and services that meet the real needs of consumers,
- ensuring that policyholders and shareholders are actively involved in the life of the company, either directly or through their representatives,
- combining the financial picture with ethical conduct, and
- ensuring that its activities are undertaken within the context of a people-centred economy geared towards sustainable and socially responsible development.

In the strategic analysis carried out to establish the 2018 Management Plan, the greatest risks and opportunities were identified in relation to the effect on the business model and on people of the evolution of technology and digital banking.

The main challenge in 2019 is how to adapt to this new scenario and, in doing so, change our behaviour to a style that promotes strategic challenges without losing our values, which is our hallmark.

A second area of priority in activities relating to people, identified in the Management Plan, is grouped under the concept of Internal Social Responsibility, among which the Healthy Company Project is a good example. Under the slogan "At Seguros Lagun Aro we take care of ourselves" it includes several courses of action (food, physical exercise, ergonomics and psycho-social factors) aimed at Health Promotion. This project, which began in 2017, will continue through 2018 and 2019 with action plans and health promotion activities for all of the Company's personnel.

Both LABORAL Kutxa and SLA have equipped themselves with a series of key non-financial indicators that allow the monitoring and evaluation of progress in these areas. The main figures are described throughout this report.

The following sections include, for each subject area, the main risks related to the issues dealt with related to the group's activities, and how the group manages these risks, explaining the procedures used to detect and evaluate them in accordance with the national, European or international reference frameworks for each subject area.

1.3. NON-FINANCIAL KEY PERFORMANCE INDICATORS

Since 2005, the Entity has produced a Corporate Social Responsibility Report - CSR following the guidelines established by the GRI - Global Reporting Initiative. Since the start it has been verified annually by AENOR.

Since 2014, this Report has included an *analysis of materiality* in order to determine the most relevant issues in these areas, so that the information not only responds to international reporting requirements, but also includes and addresses the risks and opportunities assessed as most relevant by the *Stakeholders* with whom the Entity interacts.

In order to carry out this materiality study on the impacts of its activity, the Fund also analyses the results of the analyses disclosed by other competitors in the banking sector. For 2018, the conclusions of this analysis are as follows:

- The **economic factors** are particularly significant and, in particular, the external and internal stakeholders give special importance to the elements related to **prudent management focused on excellence** and **responsibility in the contact** with the customer. It also highlights the importance given to strengthening solvency and liquidity, as well as various elements related to the quality of service and/or transparency and responsibility in multichannel contact with the customer. The main priorities also reflect the demand to contribute to the economic and financial development of the entire business fabric in the areas where the Fund is located.
- Within the **social factors,** the most tangible element is the protection of privacy and the security of data and operations. With *regard to people,* elements such as gender equality, work-life balance and reducing wage differentials are important factors.
- Lastly, with regard to **environmental aspects**, although their relevance is becoming increasingly important in society as a whole, the responses received classify their materiality as average. *“Without a doubt, the activity of a bank is not aggressive towards the environment, but from the conviction that every person and every company has an*

obligation of care towards our planet, it is an area in which we can never reduce our efforts and for which we carry out an analysis of risks and opportunities."

There are two other elements for which we classify the internal and external relevance as minor, but which are considered to be at the heart of our mission and are therefore areas of preferential attention. This concerns the social and business promotion via its support to *MONDRAGON* and its contribution to the development of the Basque language. We understand that one reason for the low demand for both elements is that the expectations of the stakeholders are largely met, so there is no need for additional initiatives beyond those already undertaken.

From the analysis of the demands of the various stakeholders and their prioritisation, LABORAL Kutxa prepares an annual *Roadmap* with the most important activities it wishes to undertake. The 2018 version, which is described in greater detail in the aforementioned CSR Report, is attached.

2018 CSR Roadmap

After consultation with stakeholders and comparing it to the sector

Prioritisation of areas for action		Stakeholder / Area	Actuation levers
1	Responsible management towards the customer: explanation and sale of complex savings products, avoiding over-indebtedness of customers...	Customers	Review of acceptance models Update of the Risk Policy and Manual Integrated Quality Management Process MiFID II project and management training
2	Excellence in quality of service: transparency, friendliness, avoidance of errors, speed and simplicity of operation	Customers	Integrated Quality Management Process
3	Protection of privacy and the security of data and operations.	Customers	PDSI Comprehensive Security Plan
4	People management, gender equality, work-life balance, salary levels and intervals, etc.	People	III Equality Plan-Berdintasuna Personnel development model Remuneration model
5	CSR measures: anti-money laundering, arms financing control, gambling, pornography	Corporate governance	Regulatory Compliance Department Socially Responsible Investment Team
6	Strengthen solvency and liquidity	Economic	Strategy approach: optimise recurring margin + cost management Reinvestment of profits. Recovery Plan. Resolution Plan
7	Contribution to the economic and financial development of the business fabric: Financing agreements for companies, support for entrepreneurs, University...	Company	Destination of profits: FEP, FSI Financing agreements and commitments Gaztenpresa Programme

In addition, **Seguros Lagun Aro,** (the tables referring exclusively to Lagun Aro will be coloured green in this Statement) has been preparing a Corporate Social Responsibility (CSR) Report since 2014, following the guidelines established by GRI (Global Reporting Initiative). During the process of preparing this Report, the most relevant issues in these areas have been identified, so that the aspects managed and the information disseminated include the most relevant risks and opportunities for their Stakeholders.

The strategic objectives in the field of CSR are embodied in commitments relating to each of the priority stakeholders. In this context, the issues that are relevant to the Stakeholders in the **insurance business**, which have been identified as critical, are:

GENERATING VALUE
✓ Talent management ✓ Responsible management of suppliers and brokers ✓ Quality and transparency in service provision ✓ Strength and financial stability
SOCIAL RESPONSIBILITY
✓ Good governance ✓ Ethics and anti-corruption ✓ Stable and good quality employment ✓ Equal opportunities and diversity ✓ Occupational health and safety ✓ Employment practices and Human rights ✓ Commitment to the community ✓ Discussion with all stakeholders
ENVIRONMENTAL SUSTAINABILITY
✓ Risk and crisis management ✓ Management and mitigation of impacts

2. ENVIRONMENTAL ISSUES.

Since 2001, **LABORAL Kutxa** has been implementing an **Environmental Management System – EMS,** in accordance with the ISO 14001 Standard, for all its activities in the three Headquarters buildings. Although it is not part of the certified system, LABORAL Kutxa transfers the majority of its environmental activities from central services to the other work centres.

The Environmental Management System is the responsibility of an Environmental Committee made up of members of the Legal Department, Internal Audit, Risks, Fixed Assets, Security and General Services and Management Planning and Control, with the latter acting as the Coordinator. In accordance with the precautionary principle of the Rio Declaration, it addresses the possible impacts of the activity with a view to preventing environmental damage. Although the direct effects of the financial and insurance activity on the environment are very limited, there are indirect effects.

Seguros Lagun Aro shares the environmental management policy of LABORAL Kutxa, the aim of which is the continuous improvement of environmental behaviour, the prevention of pollution and the protection of the environment. As with LABORAL Kutxa's network of offices, it is not integrated into its Environmental Management System.

Due to the very nature of its activity, the environmental impact caused by the insurance company is minimal. However, its management focuses on the issues related to paper consumption.

Seguros Lagun Aro has reduced the number of prints in Central Services by 100,000 sheets. This reduction is in addition to the one already produced at the end of 2017, when the printing system was changed.

Furthermore, a document management system has been established in such a way that more than 266,000 documents/year with an average of 4 pages per document are no longer printed.

To this end, an application has been developed whereby both mediators, and anyone else in the organisation, digitally archives the documentation corresponding to both the subscription process and the service provision, avoiding not only thousands of printouts but also the physical transfer and storage of the paper and its corresponding CO2 emission.

A distinguishing feature of LABORAL Kutxa's Social Responsibility policy is the implementation of an extensive concept of **Socially Responsible Investment – SRI**, whereby environmental, social and good governance criteria are taken into account when deciding on the companies in which corporate funds or those from customers are invested through investment or pension funds, but also in relation to credit investment.

The EMS is audited annually by AENOR. In the last audit report, dated 17/09/2018 the following are mentioned as strong points of the LABORAL Kutxa EMS:

- The established method of external communication and participation with clients for understanding the needs and expectations of stakeholders.
- The preparation of the materiality matrix that charts the importance for stakeholders in relation to the strategic importance for CAJA LABORAL POPULAR, COOP. DE CREDITO LTDA., concerning relevant information.

- The placement of an oil container in the garage at central services so that workers can deposit the oil used in their homes for it to be suitably processed and managed.
- The use of energy from the geothermal heat installation and the use of the biomass plant.

There is also mention of a minor non-compliance of the system related to operational control.

As stated in the ISO standard followed by the EMS, the success of an environmental management system depends on the commitment of all the functions and levels of the organisation, under the leadership of senior management. Thus:

- LABORAL Kutxa has an Environment Policy, approved by senior management, with access for all its partners and customers, through its publication on the corporate website.
- Every year, it carries out planning to determine the risks and opportunities related to its environmental issues.
- On the basis of this, it establishes objectives that are monitored and communicated, both internally and externally.
- It also plans the appropriate actions to achieve these environmental objectives, determining what is to be done, with what resources, who will be responsible, and with what indicators its achievement and compliance with deadlines will be evaluated.

In terms of resources dedicated to the prevention of environmental risks:

Direct expenses charged to the EMS	2017	2018
Maintenance of the EMS (1)	8,674	4,106
Waste management (2)	4,010	5,220
Environmental promotion	0	3,763
Measurements (discharge)	0	1,118
Total in €	**12,684**	**14,206**

(1) IZAITE, AENOR, Hora Planeta and legal requirements.
(2) Removal of Paper, oil and Safety Advisor.

These expenses are those directly managed by the Environmental Committee and do not include costs managed by specific departments or any investments made. Seguros Lagun Aro does not have specific items for this purpose.

With regard to the principle of precaution, as explained above, LABORAL Kutxa has an environmental management system in which environmental risks and opportunities are taken into account and analysed. Within this analysis, no products or technologies have been detected that are being implemented and are suspected of posing a risk to public health or to the environment.

Nor is it considered necessary to make provisions or guarantees for environmental risks.

2.1. POLLUTION

Over the last few years, LABORAL Kutxa has been making a significant investment which has resulted in the complete renovation of two of the three buildings of the Mondragon Central Services. These actions have involved the introduction of the latest technologies in lighting, air conditioning and insulation, which has led to achieving the highest environmental rating (A). The introduction of renewable technologies such as geothermal and biomass for the air-conditioning of the buildings is of particular importance. In addition, when renovating the branch offices of the business network, these technologies are applied with the aim of reducing the impact of the activity and minimising emissions. Lastly, a continuous effort is being made to digitalise the business. This is true both for the relationship with our customers and for the internal activity.

Noise is not considered to be a significant issue in the annual assessment of environmental matters within the environmental programme. With respect to light pollution, it is not taken into account due to the small impact of financial business on this matter. Moreover, there are mechanisms to turn off the lighting of the luminous signs of the offices after a certain time at night.

2.2. CIRCULAR ECONOMY AND WASTE PREVENTION AND MANAGEMENT

With regard to **environmental safety**, the buildings and premises of the Central Services have emergency plans that include possible effects on the environment in the event of an incident, as well as how to minimise this impact. There are also emergency plans for all the workplaces, although, in the network of offices the potential environmental effects of emergencies are very low.

For managing **waste**, the environmental certification includes the correct management of waste. In addition, the most important waste, paper and toner, are managed centrally for all work centres. The most important aspects of our business activity are listed below:

		LABORAL K.		Seguros LA	
Indicator	**Unit**	**2017**	**2018**	**2017**	**2018**
Cardboard and paper waste	Kg	131,135	105,994	12,437	132,463(1)
Recycled toner cartridges	No.	2,694	3,821		
Used vegetable oil	Kg	1,200	1,520		

(1) This increase is explained by the cleaning of a warehouse, which involved the removal of more than 120 tons.

Given the activity carried out, no measures are taken to combat food waste.

2.3. SUSTAINABLE USE OF RESOURCES

Although water consumption is not significant in a financial institution, within our environmental system the consumption by central services is managed, not that of the branches or Lagun Aro. As part of the refurbishment of the Headquarters buildings, the pipelines have been renewed with the aim of reducing leaks and water losses. The water consumption of Lagun Aro and the business network is limited to the toilet facilities, so it is not considered significant or manageable, unlike the Headquarters, where it is also used in the kitchen and for irrigation.

Water consumption (m3) at Headquarters	2017	2018
Water consumption	8,129	7,447

Each year, the environmental programme identifies, records and evaluates environmental factors in order to determine their associated environmental impacts and establish their level of significance from a life-cycle perspective. To this end, the scale and degree of danger are determined, obtaining a significance level. Below are the main indicators of the Environmental Management Programme of LABORAL Kutxa and Lagun Aro based on the results of this evaluation.

	LABORAL K.		Seguros LA	
Paper consumption kg	**2017**	**2018**	**2017**	**2018**
Promotional paper	96,457	106,578	80,058	64,425
Office paper	283,172	272,922	6,833	1,052
Total paper consumption	**379,629**	**379,500**	**86,891**	**65,477**
Promotional/customer paper	0.082	0.093	0.23	0.18
Office/customer paper	0.241	0.238	0.02	0.003
Total consumption/customer	**0.323**	**0.331**	**0.25**	**0.18**
Total paper consumption / person	171.8	181.75	520.3	394.44

Advertising paper consumption at value (1)	2017	2018
Recycled advertising paper as a % of total	14.3%	12%
Eco-friendly and chlorine-free advertising paper as a % of total	85.7%	88%
Recovered advertising paper as a % of total	100%	100%

(1) Total consumption of advertising paper by LABORAL Kutxa (Central Services and offices).

The total amount of advertising paper consumed was recycled or eco-friendly paper without chlorine.

In order to reduce the amount of paper used in customer communications, a significant effort has been made in recent years towards the use of new technologies and e-mail communications (Postamail):

Postamail Users	2017	2018
Number of users.	497,166	531,150
% Users of total customer base	42.49%	46.28%
Internet user customers	**2017**	**2018**
No. of CLNet contracts	615,487	646,802
Customers active on CLNet	365,137	397,264
% active customers based on contracts	59.32%	61.42%
Mobile Banking (users who have accessed via mobile)	271,211	371,962
Alerts (active contracts)	346,935	360,714

Lagun Aro keeps track of the number of prints made by employees in order to reduce their number and, therefore, the amount of paper used.

With regard to **toner cartridges**, an attempt is being made to minimise consumption. In 2017, the new multifunctional printers were gradually introduced at LABORAL Kutxa. They perform various functions (printer, photocopier and scanner) and use smaller toner cartridges. This causes the number of toners used to increase. That is why the total weight of the toner has been added, which shows the savings that are being produced.

	LABORAL K.		Seguros LA	
Toner consumption in units	**2017**	**2018**	**2017**	**2018**
Total toner cartridge consumption	2,644	3,317	64	50
Cartridge consumption per person	1.20	1.51	0.38	0.30
Weight of toner used kg	2,520	2,438		

The impacts of the LABORAL Kutxa activity are limited. One of the most important is **electricity consumption**. Mondragón's central services are within the scope of ISO 14001 environmental certification and are actively managed:

	LABORAL K.		Seguros LA	
Year/Unit	**2017**	**2018**	**2017**	**2018**
Electricity consumption in kWh / year CS	3,476,909	3,454,918	247,917	252,905
Electricity consumption in kWh / year total LK	13,891,322	12,788,260		

Internal energy consumption (A) has improved significantly with respect to the previous year, except for electricity consumption as a result of the works.

Energy (Gj)	2017	2018	Seguros LA 2017	Seguros LA 2018
Electricity	50,008	47,798	893	911
Diesel	438	54.2	0	0
Propane	0.57	0.49	0	0
Energy consumption A	**50,447**	**47,853**	**893**	**911**
Energy consumption/pers.	**22.83**	**22.92**	**5.34**	**5.48**

The data presented corresponds to all LABORAL Kutxa, as well as all the staff.

The **external energy consumption B,** the petrol used for travelling, has entailed a consumption of 9,591 GJ (10,819 GJ in 2017). For Lagun Aro it is 1,593 GJ in 2018 and 1,602 GJ in 2017.

As noted above, significant efforts have been made in recent years to improve energy efficiency. It is worth mentioning:

- The introduction of a geothermal system to air-condition the central services buildings.
- The construction of a biomass plant to meet the heating needs of the biomass. Both systems have made it possible to eliminate climate control using fossil fuels.
- Refurbishment of the insulation (low emission glass), equipment (LED) and machinery to increase the efficiency of air conditioning and lighting.

2.4. CLIMATIC CHANGE

One aspect of particular relevance is the calculation of our business's **carbon footprint.**

	LABORAL K.		Seguros LA	
Breakdown of emissions by source. Carbon Footprint	**2017**	**2018**	**2017**	**2018**
Scope 1: Direct emissions	57	25	0	0
Scope 2: Indirect emissions	4,739	4,529	84	86
Scope 3: Other indirect emissions	818	740	120	116
Total emissions Tonnes of CO2	**5,614**	**5,294**	**204**	**202**

The following is taken into account for obtaining them:

- For **scope 1** consumption of diesel oil and propane.
- For **scope 2** the total electricity consumption (CS, the office network and regional management buildings) has been taken into account.
- For **scope 3**, we have taken into account the emissions due to travel during working time, the kilometres driven by taxi, the emission resulting from paper consumption and the electricity consumption of customers when using our website.

As stated above, LABORAL Kutxa has made a continuous effort in recent years to combat and adapt to the consequences of climate change: investments, digitalisation, actions to improve energy efficiency... For the coming years, in addition to maintaining this effort, two new lines of action are proposed:

- Firstly, during the multi-year strategic analysis to be carried out in 2019, in addition to the usual variables, the sustainability variable and its implications for the business will be taken into consideration.
- Secondly and in parallel, since the beginning of 2019 work has been started on the concept of sustainable mobility. To this end, a process of research and analysis has been initiated, and a sustainable mobility plan will be proposed for its possible implementation.

2.5. PROTECTION OF BIODIVERSITY

LABORAL Kutxa's financial activity does not affect biodiversity or impact on protected areas.

3. SOCIAL AND PERSONNEL MATTERS

3.1. EMPLOYMENT

Regarding the composition of the workforce of LABORAL Kutxa:

Partner workforce of LK by sex and professional category*	2017				2018			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	25	1.4%	5	0.3%	22	1.3%	5	0.3%
Managers	263	14.3%	122	6.6%	246	14%	121	6.9%
Technicians	331	18.0%	382	20.8%	316	17.9%	359	20.4%
Clerical staff	155	8.4%	292	15.9%	144	8.2%	280	15.9%
Others	169	9.2%	95	5.2%	161	9.1%	108	6.1%
Total	**943**	**51%**	**896**	**49%**	**889**	**50%**	**873**	**50%**
Active partners	**1,839**				**1,762**			

*The categories included in the different Professional Groups are the following:

- Directors: General Management, Division Management, Territorial Management and Departmental Management.
- Managers: Section Managers, Area Managers and Branch Managers.
- Specialist officers: CS Officers, Office Managers and Office Specialists (Sales Managers).
- Clerical staff: 1st Clerical Officers, 2nd Clerical Officers, Administrative Assistants and Operators.
- Others: D.D.O.P.V.

Staff of LABORAL KUTXA by age	2017		2018	
	Partner	Other	Partner	Other
Up to 30	22	110	14	89
Between 31 and 40	480	38	410	49
Between 41 and 50	835	11	853	8
Between 51 and 60	474	1	453	3
Over 60	28	0	32	0
Group staff	**1,839**	**160**	**1,762**	**149**

Contractual relationship LK (situation as at 31/12)	2017			2018		
	Total	Men	Women	Total	Men	Women
Active partners	*1,839*	*943*	*896*	*1,762*	*889*	*873*
Surpluses	28	6	22	28	8	20
Secondment	15	6	9	15	6	9
Early retirees	134	93	41	161	120	41
Company contracts	**2,016**	**1,048**	**968**	**1,967**	**1,023**	**943**
Temps. Full-time	146	47	99	142	44	98
Temps. Part-time	7	0	7	1	0	1
Temporary Contracts	**153**	**47**	**106**	**143**	**44**	**99**
Indefinite Contracts	**7**	**7**	**0**	**6**	**6**	**0**
Total workforce as at 31/12	**2,116**	**1,102**	**1,074**	**2,116**	**1,073**	**1,042**
Lagun Aro contractual relationship	**167**	**60**	**107**	**166**	**57**	**109**

LK contracts by age (31/12/18)	Total	Up to 30	Between 31 and 40	Between 41 and 50	Between 51 and 60	Over 60
Active partners	*1,762*	14	410	853	453	32
Surpluses	29	*1*	*16*	*8*	*2*	*2*
Secondment	15	-	5	7	3	-
Early retirees	161	-	-	-	143	18
Company contracts	**1,967**	**15**	**431**	**868**	**601**	**52**
Temps. Full-time	142	88	49	4	1	-
Temps. Part-time	1	1	-	-	-	-
Temporary Contracts	**143**	**89**	**49**	**4**	**1**	**-**
Indefinite Contracts	**6**	**-**	**-**	**4**	**2**	**-**
Total workforce as at 31/12	**2,116**	**104**	**480**	**876**	**604**	**52**

Lagun Aro staff by sex and prof. category	2018			
	Men		Women	
	No.	%	No.	%
Directors	5	3%	1	1%
Managers	14	8%	11	7%
Technicians	34	20%	53	32%
Clerical staff	4	2%	44	27%
Group staff	**57**	**33%**	**109**	**67%**

Staff of Lagun Aro by age	2018
Up to 30	1
Between 31 and 40	23
Between 41 and 50	81
Between 51 and 60	60
Over 60	1
Group staff	**166**

All of Lagun Aro's workers are indefinite.

With respect to **Bancaseguros,** there are no people under 30, 34 are between 31 and 40, 96 are between 41 and 50 and 47 are between 51 and 63 (0, 55, 94 and 46 in 2017).

Workforce by sex, prof. category and business area	2017				2018			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	1	0.5%	0	0.0%	1	0.6%	0	0%
Managers	8	4.1%	2	1.0%	8	4.5%	2	1.1%
Technicians	1	0.5%	6	3.1%	0	0%	6	3.4%
Sales managers	34	17.4%	143	73.3%	29	16.4%	131	74%
Group staff	**44**	**22.6%**	**151**	**77.4%**	**38**	**21.5%**	**139**	**78.5%**
Central Serv.	4	2.1%	7	3.6%	2	1.1%	7	4%
Commercial Network	40	20.5%	144	73.8%	36	20.3%	132	74.6%
Group staff	**44**	**22.6%**	**151**	**77.4%**	**38**	**21.5%**	**139**	**78.5%**
Group staff	**195**				**177**			

All but one of the staff at **BancaSeguros** have an indefinite contract, being distributed between the LABORAL Kutxa Head Office and the business network. There is a temporary man, between 31 and 40 years old, who is a business manager.

With regard to departures during the year at LABORAL Kutxa (there are no dismissals):

Terminations and annual rotation of Working Partners in LABORAL Kutxa	2017	2018
Terminations in the year:	**144**	**124**
Voluntary and Public Office Leave	0	6
Leave Caring for children/family	41	37
Retirement	16	8
Death or Disability	3	4
Voluntary Resignation	4	2
Early retirees	80	67
Terminations of Women in the year	65	63
Terminations of Men in the year	79	61
Total departure rate	**7.5%**	6.70%
Women's departure rate	7.3%	6.76%
Men's departure rate	8.4%	7.09%

Terminations and annual rotation in CLBS	2017	2018
Terminations in the year:	**16**	**22**
Leave Caring for children/family	5	5
Retirement	1	1
Agreed end of contract	1	11
Voluntary Resignation	0	3
End of contract	4	0
Dismissals	5	2
Terminations of Women in the year	11	15
Terminations of Men in the year	5	7
Total departure rate	7.7	12.02
Women's departure rate	6.8	10.48
Men's departure rate	10.6	17.5

Terminations and annual rotation of Working Partners in Lagun Aro	2017	2018
Terminations in the year:	**8**	**8**
Voluntary Resignation	1	0
Others	7	8
Terminations of Women in the year	4	4
Terminations of Men in the year	4	4
Total departure rate	**4.79**	**4.82**
Women's departure rate	3.74	3.67
Men's departure rate	6.67	7.01

Dismissals in Bancaseguros:

2017			2018		
Sex	Age	Category	Sex	Age	Category
W	58	GES	M	59	GES
W	57	GES	M	61	GES
W	57	GES			
W	36	GES			
M	47	GES			

Dismissals at Seguros Lagun Aro:

2017			2018		
Sex	Age	Category	Sex	Age	Category
W	59	Administrative staff	W	47	Administrative staff
M	46	Administrative staff	M	59	Director
M	58	Specialist	M	62	Director
M	54	Specialist	M	60	Specialist
M	58	Specialist			

REMUNERATIONS

At LABORAL Kutxa, remuneration is received according to professional category. All positions are assigned a category and a remuneration (same job title, same salary, regardless of whether male or female), with salary increases being the same for all staff. There are also no differences according to age, except for the effect of the five years of seniority.

Average employment index LABORAL Kutxa	2017	2018
Women	2.18	2.19
Men	2.54	2.51
Difference M/W	16.5%	14.6%

*The average employment index is 2.35, which is equivalent to €2,902.65 gross per month as at 31/12/18 .

Average employment index LABORAL Kutxa	2017		2018	
	M	W	M	W
Direct.	4.79	3.93	4.83	3.95
Manager	2.88	2.71	2.84	2.70
Specialist	2.41	2.21	2.37	2.20
Admin.	2.10	1.92	2.07	1.93

Remuneration at LABORAL KUTXA by age	2017		2018	
	Man	Woman	Man	Woman
Up to 30	38,441	33,997	42,711	33,420
Between 31 and 40	40,074	33,111	40,792	34,251
Between 41 and 50	46,513	39,615	47,327	40,240
Between 51 and 60	52,721	43,473	52,991	43,495
Over 60	55,678	41,505	56,217	41,640

Average employment index CLBS	2017	2018
Women	2.05	2.07
Men	2.68	2.70
Difference M/W	30.7%	30.4

Average employment index CLBS	2017		2018	
	M	W	M	W
Direct.	4.68	-	3.33	-
Manager	3.17	3.36	3.18	3.37
Specialist	2.58	2.58	2.83	2.60
Mngr.	2.43	2.02	2.51	2.03

Remuneration at CLBS by age	2017		2018	
	Man	Woman	Man	Woman
Up to 30	1.19	1.19	-	-
Between 31 and 40	2.08	1.90	2.12	1.99
Between 41 and 50	2.56	2.09	2.51	2.06
Between 51 and 60	3.41	2.16	3.24	2.09
Over 60	2.70	1.9	0	2.15

Lagun Aro average salary	2017	2018
Women	47,510	47,789
Men	56,215	56,010
Difference M/W	18.3%	17.2%

Salary by sex and professional cat. (€ thou.)	2017		2018	
	Men	Women	Men	Women
Directors	122.6	-	100.6	81.3
Managers	76.5	66.4	74.1	67.3
Technicians	58.7	54.4	60.6	55.4
Clerical staff	42.1	37.6	39.9	38.5

Remuneration at LABORAL ARO by age	2017		2018	
	Man	Woman	Man	Woman
Up to 30	48,295	33,174	0	37,448
Between 31 and 40	49,131	46,355	50,693	46,273
Between 41 and 50	64,942	48,520	63,033	49,971
Between 51 and 60	71,084	50,227	71,302	51,776
Over 60	135,820	59,708	0	61,913

In terms of remuneration levels, wage differentials are substantially narrower than in the rest of the banking sector.

Starting salary	2017	2018
Minimum salary upon entry for partners in € / No. of hours worked	14.83	15.00
Minimum salary upon entry for partners in € / Minimum inter-professional salary	2.50	2.43

There is no difference by sex in the range of relationships between the standard starting salary and the local minimum wage, therefore, this data is not broken down by sex.

For **Bancaseguros** the relationship for both sets of data is the same as for LK.

Starting salary LA	2017	2018
Minimum salary upon entry for partners in € / No. of hours worked	11.06	11.19
Minimum salary upon entry for partners in € / Minimum inter-professional salary	1.86	1.48

With regard to wage dispersion, the ratios show a very narrow wage range, consistent with the value of solidarity inherent in cooperatives:

Salary range	2017	2018
Total pay for best paid person LK / average total pay	3.58	3.61
Increase in annual pay of the best paid person LK / average annual pay inc.	0.67	1.34
Total pay for best paid person / average total pay **Lagun Aro**	2.46	2.30

The people who form part of the Governing Board of LABORAL Kutxa, as well as in the rest of the administrative bodies of the Group companies, do not receive remuneration for their governing function, so there is no link between their remuneration and the performance of the

Company. The following table shows the remuneration of the members of the Board of Directors, the Chairman of the Governing Board and the Directors who, as working partners, have formed part of the Governing Board in the years indicated.

Item (thousands of euros)	2017	2018
Total pay for their work	1,367	1,390
Capitalised cooperative returns + Contribution interest	244	284
Total	**1,611**	**1,674**
Average pay per person	**134.3**	**139.5**

With regard to sex, of the 4 working partners who are Governing Board members one is a woman. One of the 8 members of the Board of Directors is a woman. Of the 12 members of the Governing Board, 6 are women.

Item (thousands of euros)	2017	2018
Total pay for their work	490	484
Capitalised cooperative returns + Contribution interest	3	3
Total	**493**	**487**
Average pay per person *	**123.3**	**97.4**

* 4 men in 2017 and 4 men and a woman in 2018.

There are currently no policies in place regarding employment disconnection.

In relation to the employment of disabled people, LABORAL Kutxa has 16 people under such conditions and **Bancaseguros** has two, while in Seguros Lagun Aro there are none. Also, compliance with the LISMI is achieved through a monetary donation to GUREAK INKLUSIO FUNDAZIOA for the implementation of labour insertion activities and the creation of employment for people with disabilities. In Insurance

3.2. WORK ORGANISATION

In all the companies in the group, the organisation of work is limited to normal office hours. The data relating to absenteeism in the Group are presented below.

Absenteeism hours and rate in LABORAL Kutxa	2017	2018	2018 - Men	2018 - Women
Accident and Illness	95,744	117,184	42,384	74,800
Maternity	28,704	22,918	-	-
Paternity	3,689	3,998	-	-
Other*	4,971	5,669	-	-
Absenteeism Total Hours	133,108	149,769	-	-
Absenteeism Rate	3.00	3.85	2.76	4.96
Absenteeism Rate Lagun Aro	2.44	4.57	4.03	0.55
Absenteeism Rate Bancaseguros	4.54	5.65	3.68	6.19

*Caring for sick children.

The Internal System Regulation provides measures to reconcile personal and working life, as a way to alleviate, through permissions and/or specific leave, difficulties experienced by members in meeting urgent family needs. They refer to aspects of working hours, non-presential work, paid leave and unpaid leave.

In 2016, these advantages were extended by making Central Services timetables more flexible during the summer (continuous working day) and by extending the possibilities of taking paid and unpaid leave.

3.3. HEALTH AND SAFETY

With regard to occupational health, safety and welfare, LABORAL Kutxa has the OHSAS certification verified annually by ONDOAN. The certification was renewed in 2018. Maintaining this certification is a sign of the co-operative's commitment to achieving the highest standards of prevention and welfare for its workforce.

In 2018 Seguros Lagun Aro continued the Health Promotion Project "At Seguros Lagun Aro we take care of ourselves" giving a new impulse to the implementation of actions to develop a healthy company. Thus:

- 75.20% of the workforce has participated in one of the suggested practical activities. 6 practical sessions (strength, stretching, hypopressive exercises, Nordic walking, etc.) and 2 family outings at weekends.
- 60% of the people have attended initial training.
- 39% have received personalised advice. This has been aimed at people with greater health risk, to acquire healthy habits based on their individual needs.

Also, in 2018:

- The second assessment of eating habits and impedance measurement has been carried out.
- The equivalent of one fruit ration per head per day was consumed.

We also had the opportunity to share the experience during the biannual Osarten day.

The following is information regarding accidents in the Group.

Accidents at work LABORAL Kutxa and CLBS	2017	2018
Accidents	28	28
Accident frequency(1)	4.26	4.49
Accident severity(2)	0.04	0.23
Accidents Lagun Aro	0	0

(1) Accumulated no. of accidents with sick leave *1,000,000 / h. worked
(2) hours lost due to accident *100/h. theoretical to be worked

Of the accidents in 2017, 17 were women, and of those in 2018, 18. Most of the accidents take place travelling to or from work. There is no data on frequency and severity disaggregated by sex.

There are no occupational illnesses in our activity.

3.4. SOCIAL RELATIONSHIPS

The Cooperative Credit Union Collective Bargaining Agreement is the general framework of reference, although, in 1996 LABORAL Kutxa adopted a standard for Company Collective Bargaining, through which a specific Collective Bargaining model was established.

Collective bargaining is the process by which the employment and working conditions of all the people in LABORAL Kutxa (partners and employees) and the company guarantees that ensure its application are established. The result of this process is the set of rules and procedures that regulate the general conditions of work of 100% of the people at LABORAL Kutxa and bind the parties (the Board of Directors and the Social Council) and all persons.

In addition to the usual matters relating to expenses compensation, calendars, etc., which are negotiated every year, agreements have been reached in 2018 on the following matters:

- New timetable for Central Services, which in order to improve the reconciliation of personal, family and working life, extends the flexibility of working hours.
- Measures for managing unpaid leave (bonus reduced working days, negotiated unpaid leave, incentivised departures and relocation of activities).

As happens every year, at the end of the annual negotiation process, both parties exchanged the list of matters to be negotiated in 2019.

Seguros Lagun Aro maintains a close relationship with the Legal Representation of Workers (R.L.T.) with whom the Company Statutory Agreement is negotiated. A new agreement was signed in 2018 for the four-year period 2018-2021, covering 100% of the workforce.

With regard to the personnel of Caja Laboral **Bancaseguros** S.L.U (a company wholly owned and controlled by LABORAL Kutxa) who are all employees, the working conditions are set out in their own collective agreement, renewed in 2016, as well as general employment legislation. This agreement, which regulates the professional and employment aspects that directly affect the group of workers, has a significant level of convergence with the employment regulations and procedures of LABORAL Kutxa.

3.5. TRAINING

The general principles that have guided the training management during 2018 have been:

- Insurance, including the training provided for in the Management Plan (initial, cars, life, agri-insurance...) as well as that included in the Insurance Txoko that counts to meet the three-year training hours required by the Insurance Brokerage Act.
- Digital transformation, including training on LinkedIn, omni-channelling, multi-channelling and conferences.

As for other types of training, although with less intensity in some of them, it has continued as in previous years:

- Skills development (training for new managers).
- Conflict management and facing emotions in a healthy way.

The following table shows the most relevant information regarding training:

Training in LABORAL Kutxa (includes CLBS).	2017	2018
Number of courses	413	415
Hours of training	227,835*	87,333
Hours of training/person	99.15	41.71
▪ Partner	108.05	41.85
▪ Temporary	59.2	40.26
Directors	91.13	71.12
Office Managers and Directors	124.4	39.13
Technicians	95.92	44.35
Clerical staff	89.41	35.99

* In 2017, training was undertaken with the aim of accrediting the staff in accordance with the requirements of MiFID II.

Training in Seguros Lagun Aro	2017	2018
Hours of training	5,017.5	4,752.4
▪ Women	2,414.5	2,608.5
▪ Men	2,603	2,143.9
Hours of training/person	26.8	28.6
Directors	1,379	964.3
Office Managers and Directors	1,316.5	1,385
Technicians	2,285.5	2,378.6
Clerical staff	36.5	24.5

For Seguros Lagun Aro and Bancaseguros there is no information available on training hours by sex within each employment category for 2017 and 2018.

3.6. ACCESSIBILITY

Continuing with the commitment to improve the accessibility of our premises, in 2018 we completed the refurbishment of our head office, equipping it with new facilities with adapted toilets, as well as installing a new elevator which makes all floors of our main building accessible.

Furthermore, in all the reforms carried out in the office network, work is being done to improve accessibility by installing access ramps and adapted toilets.

3.7. EQUALITY

LABORAL Kutxa has been and continues to be a pioneering organisation and a point of reference in the development of active policies in favour of equality between women and men. It has been two decades since we committed ourselves to gender equality and we began to work on this issue in the Company. In 1997 we were the first company to be recognised by Emakunde, the Basque Institute for Women, as a Collaborating Organisation for the development of equality policies.

Since then we have come a long way, years in which we have launched several initiatives that have contributed to gender equality in the Company. Thanks to the work undertaken, we have managed to make it a reality that the Governing Board of LABORAL Kutxa has a parity composition (currently, 50% of the people on it are women), and we have managed to increase the number of women on the Board of Directors and Social Council (40% of the people on these committees are women).

But we still have great challenges to face. The main objective that we currently have is to achieve a **greater representation of women in positions of responsibility** and decision-making spheres and to move towards a **shared leadership** model that incorporates the gender perspective and in which the traits and behaviours most associated with femininity acquire greater importance (whether these are exercised by women or not). In short, we want to take advantage of all the talent existing in the Company, without gender being an obstacle.

In order to achieve this objective, we have taken various initiatives throughout 2018. Firstly, we have set up the Empowerment School aimed at the women in the organisation. In spring, we carried out the pilot test of the workshop and, with the lessons learned from that experience, we launched the first edition of the School in autumn led by Maru Sarasola, an expert in leadership and a *coach*. Participation was voluntary and a total of 31 women took part. The workshop was very well received and the evaluation of the participants was very positive so, in 2019, we plan to organise another three events.

In addition, from the most social and relational dimension of empowerment, and in response to a proposal made by the women who participated in the pilot test of the School, we have created a community on our intranet composed basically of women who have participated in the School of Empowerment. LK *Women's Empowerment* Community *: from the individual to the collective* aims to give continuity to the work started in the School, although it is open to all women who show interest. The idea is to create a network to help women move through their process of empowerment from personal to collective work, offering a space where they can express their opinions, debate, share experiences and create a sense of belonging.

Secondly, in order to create the appropriate conditions to guarantee gender equality in the Company, we have analysed our leadership style from a gender perspective. To this end, we launched a questionnaire designed by an expert team from the University of Deusto for the entire organisation and have learned about the perception of people and leaders on issues such as equality, discrimination and leadership. Whether women and men perceive the leadership style of LABORAL Kutxa in the same way, whether the leadership performed by men and women is valued in the same way, or whether expectations are different depending on whether the leader is a man or a woman. In order to present the main results of the analysis, we have carried out a *Galdegin (an interactive presentation in streaming)* and the video explaining the results is available on our intranet.
LABORAL Kutxa is committed to building a fairer and more equitable society and, therefore, we will continue to promote initiatives that help us to make progress in achieving effective equality between women and men. In this sense, taking into account the progress made so far, in the coming months we will design the 4th Plan for Equality.

In 2018, **Seguros Lagun Aro** prepared the 2nd Equality Plan. The process has had the support of Elhuyar Aholkularitza. To this end, 5 working groups were set up (Equality Committee, Steering Group, Awareness Group, Reconciliation Group and Harassment Protocol Group).

The main objectives included in the Plan are:

1. To implement the Equality Plan.
2. To involve everyone from the organisation in the implementation of the Plan.
3. To achieve greater parity in all the Management bodies.
4. To ensure that 90% of the workforce is aware that selection and promotion processes are based on equality criteria.
5. To adapt the work-life balance needs to the reality of the organisation.
6. To understand and overcome possible imbalances in remuneration and social benefits.
7. To improve people's knowledge of the actual situation regarding remuneration.
8. To ensure that there are no instances of sexual or gender-based harassment in the organisation.
9. To eliminate the use of language that may encourage inequalities.
10. To ensure an inclusive use of language and images.
11. To obtain public recognition in matters of equality.
12. To raise awareness among the different stakeholders regarding the issue of equality.

Most of the actions programmed and implemented in the 2018 Management Plan have been related to organisational culture. Actions related to Occupational Health and Prevention of Occupational Risks have also been highly significant.

In 2018, as in 2017, there have been no complaints or enquiries through the harassment complaints channel established for such situations.

With regard to *accessibility*, reference is made throughout this report to the efforts made to improve the new channels with which to maintain and strengthen our relationship with customers via the Internet and mobile phones.

The Entity meets the requirements regarding *diversity* policies in compliance with the guidelines and regulations on the assessment of the suitability of the members of the governing body and the holders of key functions, considering aspects such as academic profile, professional profile, gender and age in the Policy for the Selection of Candidates for the Governing Board and in the assessment and suitability processes.

It should be noted that, as at 31 December 2018, the minimum percentage established for the under-represented gender is exceeded given that gender parity is maintained in the composition of the Governing Board, the cooperative's highest administrative body, achieved in 2017.

Furthermore, in terms of selection and appointments and renewal of Senior Management members, Caja Laboral has a Succession Plan for key positions, which identifies the critical positions and the professional paths and profiles of origin for their replacement, establishing professional development plans for the people identified and succession plans for each of the positions. The identification of the key positions eligible for a succession plan, as well as of the people capable of becoming the future replacements for the current occupants of such positions, takes into account variables such as training, experience and knowledge, management track record, performance history, personal skills and abilities, commitment to the Entity, potential, etc.

In the 2018 financial year, new appointments to the management team have been approved and will be effective as of 1 January 2019. The Board of Directors in its new configuration represents a more balanced situation in terms of gender and age representation.

4. RESPECT FOR HUMAN RIGHTS

In relation to the direct activity of LABORAL Kutxa with respect to its own workers, the legal status of co-operative is an ambitious development of the inspiring principles of the *Universal Declaration of Human Rights,* namely that all human beings are equal in dignity and in rights.
Indeed, the co-operative method implies that the people who work in the company are partners with equal rights and obligations, regardless of their knowledge or status in the hierarchy. Requiring all people to share rights and obligations, as they all share in the risks and rewards of the business.
The concept of cooperation also extends to a commitment to our society. We are a *Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society.*

In our area of activity, we only identify significant risks linked to non-compliance with human rights in relation to corruption risks and with our indirect actions to ensure compliance by companies that supply us. The activities related to these two aspects are described in the following paragraphs.

A second type of risk related to Human Rights concerns *harassment* at work. This is a problem with a low quantitative effect, but a potentially significant effect on the individuals who may be involved in a potential situation of this nature.

In the procedures, there is a *Protocol for action in cases of harassment at work,* updated on 31/01/2015. The organisation incorporates an *Investigation Committee,* which has a *specific complaints channel*. This protocol includes situations of *sexual and gender* harassment *(known as mobbing*). There have been no complaints or enquiries in 2018 and 2017 concerning the aforementioned complaints channel.

The financial activity we carry out, the geographical scope of our activities and the ownership structure make it impossible for threats of violation of the provisions of the fundamental conventions of the International Labour Organisation to occur.

Lagun Aro also has a procedure for managing conflict, harassment and violence at work. There have been no complaints under this Procedure. The Protocol against sexual harassment and harassment based on sex in the workplace has been defined and approved within the framework of the 2nd Equality Plan.

5. CORRUPTION AND BRIBERY

Laboral Kutxa has a *Criminal Compliance Policy,* with several Regulations and Codes of Conduct including, among others:

- Code of Ethics and Professional Conduct,
- Guide of Good Practices and Professional Secrecy,
- Internal Rules of Conduct specific to the stock market.

Organisationally, it has also set up an *Ethics Committee,* an *Internal Audit* department and a *Regulatory Compliance* department to prevent irregularities and monitor compliance with rules and procedures.

Below are the business units of LABORAL Kutxa that have been analysed with respect to risks related to corruption:

Offices analysed	2017	2018
Total no. of offices analysed	90	83
% Offices analysed	28%	27%

It should be noted that the controls and remote audit analyses implemented have an effect on 100% of the branches of the Organisation.

At Seguros Lagun Aro the planning of the *internal audits* carried out in order to oversee the inherent underwriting risks (compliance with regulations and administrative procedures, preservation of documentation, etc.) is carried out at 100% of the branches annually, both in the **Bancaseguros** and Brokerage channels, based on the warnings and risk groups established for the various annual and daily audits.

There is a “Complaints Channel” that allows people to report, guaranteeing the protection of the complainant, irregularities of potential importance linked to the Code of Ethics and the Criminal Compliance Policy, and the “Ethics Committee” acts as a supervisory body for these regulations, which is chaired by the Social Management Department and also includes Regulatory Compliance, Legal Advice, the Financial Department and Internal Audit. This body, in addition to monitoring, grants authorisations or exceptions and deals with the complaints received through the Complaints Channel, ensuring the appropriate action. In 2018, there have been no enquiries or complaints. In 2017 there were 4 enquiries, two of which were clarified and two other concerns were resolved without the need to initiate proceedings.

Some of the actions taken in the fight against corruption during 2018 are described below:

Actions Undertaken in 2018.
• The Manual on the Prevention of Money Laundering and Financing of Terrorism has been amended, introducing several improvements.
• The six-monthly reports, Summary of Special Examination Operations and a Risk Self-assessment Report on Money Laundering have been created.
• The parameters for the alerts have been revised.
• The application for exchanging banknotes has been improved, facilitating the verification of authorisations granted in favour of third parties.
• The Remediation Plan has been updated to address deficiencies in the Formal Identification of Customers.
• Analysts in the MLP Unit have received specific practical training in Money Laundering Prevention and the manager of the Unit has received additional training related to money laundering and tax fraud.

MONEY LAUNDERING

The management policies of **LABORAL Kutxa** identify the greatest risks in the areas of corruption and bribery with *the fight against money laundering and the financing of terrorism.* In this regard, it undertakes to establish the necessary bodies and procedures in accordance with current regulations and international standards. For this reason,

- The *Committee for the Prevention of Money Laundering and the Financing of Terrorism* and a *Prevention Unit* have been created within the organisational structure of the Company, with specific functions in the area of prevention.
- Precise rules and procedures have also been established, which are contained in a *"Money Laundering and Financing of Terrorism Prevention Manual",* the latest version of which was approved on 30/01/2019.

This policy applies to the entire Laboral Kutxa Group, including the subsidiaries.

The objectives of these rules and procedures, which must be complied with, are:

- To strictly comply with the regulations in force at all times, as well as the recommendations issued by national and international bodies and authorities.
- To introduce rules for action and appropriate control and communication systems to prevent funds of a criminal origin from being channelled through the Laboral Kutxa Group and to impede access to certain persons.
- To establish customer admission policies.
- To ensure that working partners and other employees adhere to the "know your customer" procedures.

These policies and procedures are primarily preventive in nature. In addition, internal control procedures are subject to an annual review by an external expert so that a rationale for continuous improvement in reducing exposure to these money laundering and financing of terrorism risks can be applied.

The Money Laundering Prevention Unit has sent five reports of transactions suspected of money laundering to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences.

The **real estate asset management companies** maintain a policy and have implemented a money laundering prevention system that establishes the bodies, procedures, internal controls and appropriate tools to comply with the regulations applicable in this field. The quality of this system and its practical application are examined annually by an independent expert and, in the examination relating to the 2018 financial year, it was rated positively without any incidents.

CONTRIBUTIONS TO CHARITABLE AND NON-PROFIT ORGANISATIONS

As will be seen in the following section on Society, LABORAL Kutxa, both for statutory reasons, being a credit cooperative, and because of its mission, allocates a significant part of its profits to repaying society that which it derives from it. There are a multitude of contributions for different amounts to charities and non-profit organisations.

Furthermore, LABORAL Kutxa defines Public Administration Management in the Public Sector Management Manual as a differentiated, integrated, coordinated and dynamic management by the Public Sector Office within the network of Companies. This document defines the responsibility and functions of each Division of LABORAL Kutxa in the management of this segment, in everything that affects the segmentation, management systems, information systems, commercial strategies and risk management.

In the same way, the LABORAL Kutxa Risk Manual "Credit Risk Policy, Methods and Criteria", considers in Chapter 5 the "Risk Policy to be applied to the Public Sector", establishing a differentiated policy within the scope of Companies due to their accounting particularities.
The loans and guarantees with the political parties in force on 31 December are:

	2017	2018
Eusko Alkartasuna	10	118
EAJ - PNV	919	793
Aralar (guarantee)	3	0
Loans (thousands of euros)	932	911

6. SOCIETY

6.1. THE COMPANY'S COMMITMENT TO SUSTAINABLE DEVELOPMENT

LABORAL Kutxa was founded in the Basque Country as part of a Business Group with a strong commitment to serve society, whose mission includes the creation of associated and participatory cooperative work as an essential way to create wealth and well-being, both among its direct social partners and in the society in which it is immersed.

The criteria and mechanisms for the allocation of social assistance are unique:

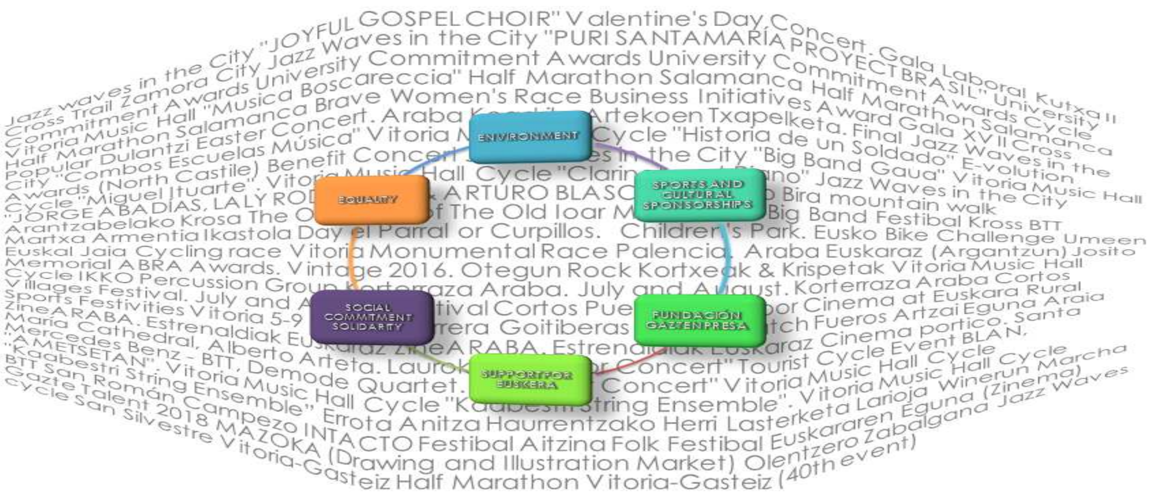
- Due to its legal nature and its cooperative vocation, LABORAL Kutxa directs a significant part of its humanitarian aid contributions to the promotion of the cooperative world.
- In the distribution of subsidies under one of the headings of the Education and Promotion Fund, the distribution of which corresponds to the institutional bodies of the cooperative, the section known as "General Distribution", one of the organisations that takes part is the Social Council, which is the representative body of the entity's working members.
- In addition, it also reserves a specific section of the social works for local assistance (Local Distribution), by means of allocations through the 309 branches of LABORAL Kutxa, which steer the aid towards their own areas (neighbourhood associations, nearby educational centres, parochial social action groups, immigrant social assistance centres, etc.).

The purpose of the Education and Promotion Fund (FEP) is:

- Training and education of the workforce in cooperative principles and values.
- The dissemination of cooperativism, as well as the promotion of inter-cooperative relations.
- The cultural, professional and assistential promotion of the community in general, as well as improving the quality of life and the community development and environmental protection activities.

In quantitative terms, the Articles of Association of LABORAL Kutxa lay down "return" requirements of funds to the company that are much higher than the requirements established by the regulations for co-operative credit unions. Specifically, this Fund directs **25% of its annual distributable surpluses** to the promotion of social and business activities in the society where it operates, where it is legally required to dedicate 10%. In addition, all other surpluses are reinvested in the Bank itself, to increase its solvency and sustainability.

Item (thousands of euros)	Years of application	
	2017	2018
Charitable contribution to the launch and consolidation of cooperative companies (through MONDRAGON)	11,750	12,887
Inter-cooperative Social Fund - FSI (15% of Profit)	**11,750**	**12,887**
Cooperative Promotion through MONDRAGON (68% FEP) and other destinations (UNACC, etc.)	5,327	5,841
FRES, Fund for Restructuring and Company Employment	818	698
Entrepreneurship and Business and vocational training (*Gaztenpresa Foundation)*	261	311
Cultural activities in general and others	397	543
Promotion of the Basque-language and Basque Culture	428	321
Welfare and Third World Institutions	269	373
Agri-food sector	57	63
Education and Promotion Fund - FEP (10% of Profit)	**7,557**	**8,150**
Sum FSI+FEP	**19,307**	**21,037**



With respect to Seguros Lagun Aro, in 2018 the associations with Stop Accidents, Gaztenpresa and the FUNDACION ZEHARO FUNDAZIOA have been continued.

GAZTENPRESA FOUNDATION

One important activity is supporting entrepreneurship through Gaztenpresa. This is an initiative that started up in 1994 and is the leader in the Basque Country and Navarre in supporting self-employed people and small businesses that start their entrepreneurial journey.

The Gaztenpresa Foundation is a private, not-for-profit organisation that is part of the social projects of LABORAL Kutxa, and its purpose is to support initiatives and develop actions that facilitate the creation and safeguarding of employment through programmes and services that add value to the business and professional development of its users, as well as to their allies and to society in general. The foundation targets:

- Entrepreneurs, mainly young people.
- Collectives with difficulties in their social and labour insertion.
- Young micro-enterprises with development projects.
- Training institutions that want to encourage the entrepreneurial spirit among their students.

The business creation activity of the **Gaztenpresa Foundation,** financed on the one hand by LABORAL Kutxa and Corporación Mondragon, and on the other hand by the Basque Government (Department of Employment and Social Policies), through Lanbide and the European Social Fund, has been substantial in 2018. Thus, the projects assisted and that go beyond the feasibility phase **have generated 415 micro-enterprises,** creating 812 jobs.

Gaztenpresa Projects	2017	2018
Viable and open the business	402	415
Not viable/ Viable but do not open the business	266	144
Consolidation	19	120
Derivatives	160	108
Consultations	201	298
Total	**1,048**	**1,085**

6.2. SUBCONTRACTING AND SUPPLIERS

The financial activity that we carry out, as well as the local presence in a very specific geographical area, means that the management risks of subcontractors and suppliers are not excessively important.

Nevertheless, LABORAL Kutxa, aware of the importance of supply chain management in the area of sustainability, has developed the following areas of action regarding suppliers during 2018:

1) Firstly, with regard to **occupational risk prevention**, a coordination of business activities has been undertaken. There are more than 300 work centres in LABORAL Kutxa where many people belonging to other companies come to perform professional tasks: subcontractors, works, maintenance... In 2018, a computer system was acquired and implemented that allows us to establish the controls and exchanges of information and documentation necessary to ensure that the people who come to our premises to carry out these activities meet all the established requirements.
   An objective has also been defined to link the system to access control so that no subcontractor can access our premises without having up-to-date documentation.
2) Progress has been made in the **supplier company management project** to organise the purchase management of the different departments. As part of this project, the Corporate Social Responsibility Committee has approved the following documentation that fully develops LABORAL Kutxa's desire to work with its supplier companies in an ethical and sustainable manner:

1. Responsible purchasing policy of LABORAL Kutxa.
2. Supplier code of ethics.
3. Code of conduct for responsible purchasing.

Actions to be undertaken in 2019:

1. Development of a computer application for the implementation of the purchasing procedure. Within this, it will be necessary for supplier companies to adopt the Supplier Code of Ethics.
2. As part of the supplier company registration process, spaces will be set up to compile information from supplier companies regarding sustainability aspects: environmental management, quality, equality, local purchasing...
3. Make progress in the inclusion of social and environmental aspects (aside from price, service and quality) when selecting supplier companies.
4. Disclose the new procedure to all parties, internal and external.

Given the characteristics of our supplier companies, it is not considered necessary to carry out audits on them on aspects not related to the characteristics of the product or service they provide.

A general annual monitoring is carried out regarding the origin of the purchases. LABORAL Kutxa pursues a commitment to source goods and services in the places where it operates.

	2017	2018
Purchase volume (thousands of euros)	173,690	173,369
% of goods and services purchased from local businesses	96.3%	94.2%
% of local suppliers of total	95.0%	93.3%
% of domestic purchases, not imported	100%	98.9%

6.3. CONSUMERS

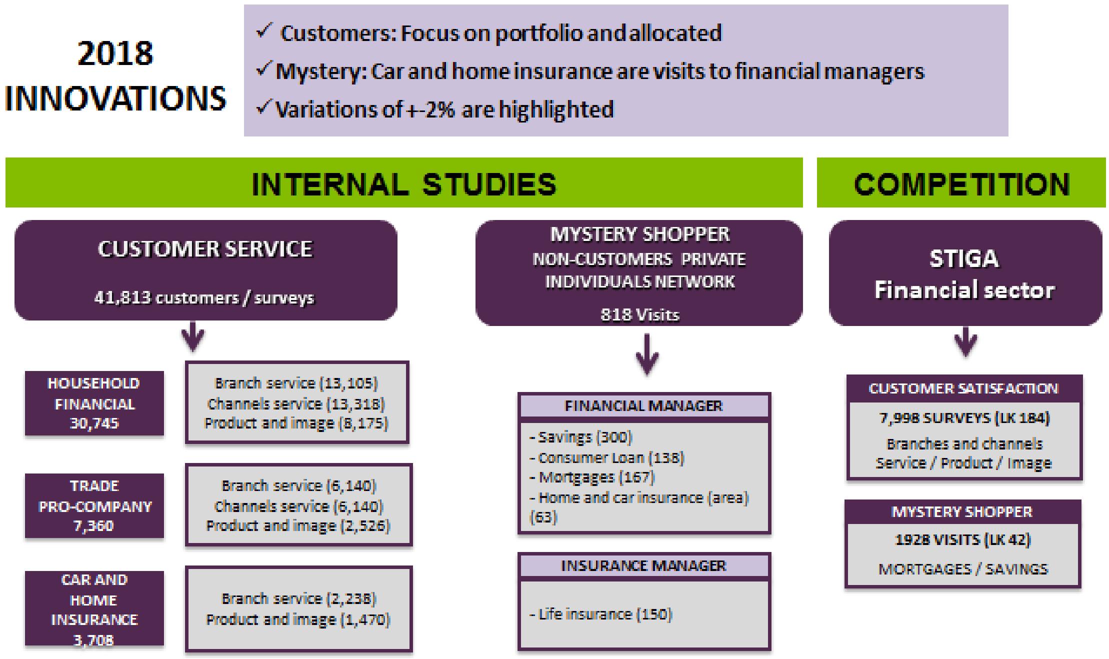
The mechanisms for dialogue with customers are designed to meet the expectations and demands of banking and insurance customers. They are also part of an *Integrated Quality Process* the permanent objective of which is that the quality of customer service and attention, in all communication channels that the customer decides to use, is maintained as a distinctive advantage of LABORAL Kutxa compared to its competitors. The following diagram describes the numerous communication mechanisms in place.

Customers

Dialogue mechanisms used in 2018:

- ✓ Study of quality of service and care, in offices and channels, and assessment of the product and image of LABORAL Kutxa. Telephone and on-line interview with 30,745 private clients.
- ✓ A similar study was carried out with 7,360 SMEs, self-employed and micro-business customers.
- ✓ A third study on the quality of service and care, in offices and channels, and the evaluation of the product and image has focused specifically on car and home insurance products. Sample of 3,708 surveys.
- ✓ Study of quality of service and care provided to potential customers, financial and insurance, with 818 visits to LABORAL Kutxa offices by "simulated customers".
- ✓ Benchmarking of Customer Satisfaction in the Financial Sector by the Stiga company, with 16,800 telephone interviews with customers (400 LABORAL Kutxa customers). LABORAL Kutxa remains among the best rated companies: ranked third in overall satisfaction with service, with a score of 7.83.
- ✓ Multi-client study of Objective Quality in Banking Offices (EQUOS RCB) by Stiga. Conducted in 3,900 branches from 26 brands of banks in Spain (85 LABORAL Kutxa branches) using the technique of "simulated customer", thus measuring the quality of service to non-customers. It has been carried out since the year 2000. 8th position in 2018, with a score of 7.59.
- ✓ Continuous study of insurance customer satisfaction. Telephone interviews with 5,648 people following the processing and settlement of a claim by the General Insurance company of the LABORAL Kutxa group, Seguros Lagun Aro. Overall satisfaction with the company was 8.09 (8.45 in 2017).
- ✓ Customer Service: 9,121 cases opened in LABORAL Kutxa.
- ✓ Listening and participating in Social Networks. Developing specific blogs for companies.
- ✓ In terms of internal studies, the product explanation improved by 5.0 points (82.7). Above all, the progress in detecting customer needs (84.6) and professional and personalised advice (93.2) in visits handled is particularly noteworthy.
- ✓ Significant improvement in commercial proactivity, 7.9 points more (73.3 in visits handled).
- ✓ 3rd Bank in Customer Satisfaction (78.3) after ING and Banca March.
- ✓ 3rd in satisfaction with Online Banking, up 2.2 points.

The following diagram describes the numerous communication mechanisms in place:



The results compared to other banking and insurance competitors are favourable. Some of the most representative are included in the following tables.

Satisfaction of banking customers (score 1 to 10)	2017	2018
Satisfaction among preferential customers	7.67	7.24
Recommendation level	7.48	6.97

Source: Tracking study of the image and brand of LABORAL Kutxa. The area is the Basque Country and Navarre. Ikerfel

Comparative benchmarking with the banking sector. Potential customers (score 1 to 10)	2017	2018	Sector differentiation 2018
Sectoral Objective Quality Study (EQUOS-Stiga)	7.52	7.59	+0.39
Satisfaction of banking customers (BMKS FIN–Stiga)	7.72	7.83	+0.38

Lagun Aro. Benchmarking in the insurance sector Satisfaction of insurance brokers (score 1 to 10)	2017	2018
Overall satisfaction with the company	8	7.4
Insurance Market	7	7.1

Source: Continuous study of broker satisfaction. Seguros Lagun Aro and ICEA

COMPLAINT SYSTEMS

Since 1994, LABORAL Kutxa's **Customer Service Department** has been responding to customer queries, complaints and claims. The results of this Service are:

Customer Service	2017	2018
Number of cases opened	**15,748**	**9,121**
Written: brochure / letter	12,996	7,456
Internet/Telephone	1,477	1,240
Public bodies: OMIC / Regional Governments	1,275	336
Others	-	89
Nature of the cases		
Complaints	11,986	7,506
Claims	3,367	1,286
Consultations	12	5
Suggestions	6	9
Letters of congratulations / gratitude	1	-
Sundry petitions, others	376	315
Amounts claimed (thousands of euros)		
Amounts for cases resolved in favour of the Company	6,394	1,627
Amounts for cases resolved in favour of the customer	129	44
Indemnities paid by the Company	129	44
Amounts returned to customers by the Company, no payment due	0	0
Amounts compensated or refunded by third parties	0	0
	6,523	**1,671**

Service activity decreased by 40.69% compared to the previous year, mainly due to the lower number of complaints and claims related to mortgage loan arrangement costs.

The reasons for the opening of cases focused on the following areas of action:

Reason for opening cases (SAC)	2017	2018
Centralised customer services	1%	3%
Commissions and expenses	83%	71%
Economic terms	9%	16%
Missing or inaccurate information	1%	1%
Coverage of needs	1%	0%
Information missing or incorrect	1%	2%
Aspects of customer relations	1%	1%
ATMs	1%	1%
Others	2%	5%
Amount of the claims	**2017**	**2018**
≤ €100	0.14%	0.49%
> €100 ≤ €250	0.13%	0.67%
> €250 ≤ €1,000	8.48%	17.28%
> €1,000	91.25%	81.56%

The claims presented through the various available channels have been:

	2017	2018
No. of claims submitted to the Claims Service of the Bank of Spain in relation to product safety (1)	0	2
No. of claims in which BoS has pronounced in favour of LABORAL Kutxa	0	1

(1) Claims related to the fraudulent use of means of payment and phishing.

	2017	2018
No. of claims submitted to the Claims Service of the Bank of Spain, DGS, CNMV and UNACC regarding information on products and services (1)	30	12(2)
No. of claims in which BoS and CNMV have pronounced in favour of LK	7	9

(1) Claims related to incorrect information or bad advice, mainly information about all types of fees and costs (account maintenance, overdraft, etc.).

(2) 290 claims referring to formalisation costs and/or archived floors in favour of LABORAL Kutxa must be added to this figure.

	2017	2018
No. of claims submitted to the Claims Service of the Bank of Spain and the CNMV in relation to the advertising of products and services and privacy.	0	3
No. of claims in which BoS and CNMV have pronounced in favour of LABORAL Kutxa	0	3
Cost of fines for non-compliance with regulations on the provision and use of services.	0	0

	2017	2018
Penalties (€) for non-compliance with laws and regulations	36,000	14,400

Both amounts correspond to penalties from the Data Protection Agency (DPA).

Lagun Aro	2017	2018
Open cases (claims and complaints)	713	721
No. of claims submitted to the Insurance and Pension Funds D.G. Claims Service	46	23
% of closed cases estimated or partially estimated	38.9%	46.2%
Average response time (days)	nd	9.86
Amount of payments in favour of the customer €	nd	123,100
% final reports received from supervisor in favour (in whole or in part) of claimant	12.5%	18.4%
CL Bancaseguros	**2017**	**2018**
Open cases (claims and complaints)	31	16
% of closed cases estimated or partially estimated	3.3%	15.8%
Average response time (days)	nd	2.47
Amount of payments in favour of the customer €	nd	0

6.4. TAX INFORMATION

The consolidated profits of the LABORAL Kutxa group are:

Consolidated profits	2017	2018
Profit after tax (€M)	112,849	124,173

LABORAL Kutxa performs its tax obligations in the regions in which it operates. It thus contributes to the sustainability of public services and the progress of Society. The amounts relating to 2018 are as follows:

Taxes and duties (thousands of €) LABORAL Kutxa	2017	2018
Corporate income tax	8,682	11,418
Taxes (property tax, tax on professional and commercial activities, etc...)	7,306	7,593
V.A.T.	2,247	2,198
Total	**18,235**	**21,209**

Taxes and duties (thousands of €) Lagun Aro	2017	2018
Corporate income tax	3,135	1,951
Taxes (property tax, tax on professional and commercial activities, etc...)	101	96
Tax on Insurance Premiums	7,165	7,252
Total	**10,401**	**9,299**

The Public Administration does not form part of the capital nor does it have any representation on the governing bodies of LABORAL Kutxa. The financial support received from the Administration is as follows:

Item (thousands of euros)	2017	2018
Subsidies (aid for employment, training and energy investments)	316	538

Item (thousands of euros)	2017	2018
Subsidies Lagun Aro (Euskera)	4	20

APPENDIX II

ANNUAL REPORT ON THE CORPORATE GOVERNMENT OF OTHER ENTITIES -OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

DATA IDENTIFYING THE ISSUER

End date of the relevant financial year: [31/12/2018]

CIF (Tax ID): [F75076935]

Corporate Name:

[**CAJA LABORAL POPULAR COOP. DE CREDITO**]

Registered address:

[PS. JOSE MARIA ARIZMENDIARRIETA S/N (MONDRAGON) GIPUZKOA]

ANNUAL REPORT ON THE CORPORATE GOVERNMENT OF OTHER ENTITIES -OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

A. OWNERSHIP STRUCTURE

A.1. Details of the most significant shareholders or participants in your entity at year-end:

Name or company name of the shareholder or participant	% of share capital
LAGUNARO EPSV	15.21

A.2. Indicate, where appropriate, any family, commercial, contractual or company relationships that exist between the significant shareholders or participants, as far as they are known by the entity, unless they are barely relevant or only arise in the ordinary course of business:

A.3. Indicate, when appropriate, any commercial, contractual or company relationships that exist between the significant shareholders or participants and the entity, unless they are barely relevant or only arise in the ordinary course of business:

A.4. Indicate whether there are any restrictions (statutory, legislative or of any kind) on the transferability of securities and/or any restrictions on voting rights. In particular, notify the existence of any type of restrictions that may make it difficult to take control of the company by means of the acquisition of its shares on the market, as well as any systems of prior authorisation or communication that may be applicable to the company's acquisitions or transfers of financial instruments due to industry regulations:

[√] Yes
[ ] No

Description of the restrictions

In compliance with the provision of cooperative law, no legal entity member may have a capital share and/or vote of more than 20% and no natural person member may have a capital share and/or vote of more than 2.5%.

B GENERAL COUNCIL OR EQUIVALENT BODY

B.1. List the constitution quorum for the general council or equivalent body established in the articles of association. Describe how it differs from the minimum member system stated in the Spanish Companies Act (LSC) or the regulations that apply to it.

In accordance with what appears in cooperative legislation, the General Meeting, regardless of the agreement to be adopted, is considered to be validly constituted, on first call, when more than half of the shareholders are present or represented and on second call when at least 5% of the shareholders or 100 shareholders attend..

B.2. Explain the system for adopting company resolutions. Describe how it differs from the system stated in the LSC or the regulations that apply to it.

Applying cooperative legislation, the motions must be adopted, as a general rule, by more than half of the validly cast votes. In the event of mergers, divisions, issue of debentures and other securities, and for amendment of the articles of association, a favourable majority is required of no less than two thirds of the votes present or represented.

B.3. Indicate briefly the motions adopted at meetings of the general council or equivalent bodies held during the year corresponding to this report and the percentage of votes with which these motions were adopted.

During the year the motions adopted by the General Meeting held on 21 April 2018, with their respective voting percentages, were as follows:

- Designating three shareholders to approve the minutes of the respective meeting (unanimously).

- Approving the annual accounts and the management report referring to the entity and its consolidated group (unanimously).

- Paying interest on share capital (unanimously).

- Distributing the net surpluses from the year, allocating 10% to the Education and Promotion Fund, 15% to the Inter-cooperative Social Fund, 25% to Cooperative Returns and 50% to the Mandatory Reserve Fund (unanimously).

- From the Education and Promotion Fund, allocating 11.19% for local distribution, 12.68% for general distribution and 76.13% for financing Mondragon's cooperative institutions and contributions to the Inter-cooperative Education and Promotion Fund (unanimously).

- Approving income quotas and contributions to registered capital from new shareholders (unanimously).

- Establishing that the 2019 General Meeting will set the interest to be paid on the contributions to registered capital corresponding to 2018 and, nonetheless, authorizing the Governing Board to make payments on account (unanimously).

- Extending the appointment of Price Waterhouse Cooper as auditors of the entity for the 2018 financial year (unanimously).

B.4. Indicate whether, at the general meetings or equivalent bodies held during the year, there were any items on the agenda that were not approved by the shareholders.

There were no items on the agenda that were not approved by the shareholders.

B.5. Indicate the address and how to access the entity web page containing information on corporate governance.

The Corporate Governance content can be accessed from the home page of the general website (www.laboralkutxa.com) or from the entity's corporate website (http://corporativa.laboralkutxa.com) by clicking on the section "Corporate Governance and Remuneration Policy".

B.6. State whether meetings have been held for the different unions that might exist for holders of shares issued by the entity, the subject of the meetings held during the year referred to in this report and the main motions adopted.

There are no unions for holders of shares issued by the entity.

C STRUCTURE OF THE COMPANY'S ADMINISTRATION

C.1. Board or administrative body

C.1.1 Give details of the maximum and minimum number of board members or members of the administrative body set forth in the articles of association:

Maximum number of board/body members	13
Minimum number of board/body members	12
Number of directors/members of the body established by the board or assembly	12

C.1.2 Complete the following table for the board or administrative body members and their different statuses:

Name or company name of the board/ administrative body members	Representative	Date of last appointment
MR TXOMIN GARCIA HERNANDEZ		29/07/2015
MS MARÍA CARMEN INURRIA LANDERAS		29/07/2015
MS ELENA ZARRAGA BILBAO		29/07/2015
MR JAVIER OLEAGA MENDIARACH		29/07/2015
MS AINHOA GALLASTEGUI MARTÍNEZ		29/07/2015
MR ADOLFO PLAZA IZAGUIRRE		29/07/2015
MR LUIS MARIA UGARTE AZPIRI		27/07/2017
MR PABLO LUIS BRINGAS VELEZ		27/07/2017
MR FRANCISCO JOSE DEAN PUEYO		27/07/2017
MS ITZIAR ELGARRESTA IBARRONDO		27/07/2017
MS MARIA ESTHER KORTA ERRAZKIN		27/07/2017
MS NAGORE LARRABEITI LIBANO		27/07/2017

C.1.3 Identify, when appropriate, the board/administrative body members who take on positions as directors, representatives of directors or executives in other companies that form part of the entity's group:

Name or company name of the board/administrative body member	Corporate name of the group's entity	Position
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO, S.A.	CHAIR
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO VIDA, S.A.	CHAIR

C.1.4 Complete the following table with information on the number of femalemembers of the Board of Directors and its committees, as well as trends over the last four years:

	Number of female members							
	Year 2018		Year 2017		Year 2016		2015 Financial Year	
	Number	%	Number	%	Number	%	Number	%
Administrative board	6	50.00	6	50.00	3	21.00	3	21.00
Audit Committee	2	67.00	2	67.00	2	67.00	2	67.00
Appointments Committee	2	40.00	2	40.00	0	0.00	0	0.00
Payments Committee	2	40.00	2	40.00	0	0.00	0	0.00
Risks Committee	3	60.00	3	60.00	2	40.00	2	40.00

C.1.5 Indicate whether the company has diversity policies regarding the company's administrative, management and supervisory bodies with respect to issues such as age, gender, disability, or professional training and experience. Small and medium sized organisations, in accordance with the definition provided in the Accounts Audit Law, will have to report, as a minimum, on the policy they have in place regarding gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

If yes, describe this diversity policy, its objectives, the measures and manner in which it has been implemented and its results during the year. The specific measures adopted by the governing body and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors must also be described.

If the company does not apply a diversity policy, explain the reasons why it does not do so.

The Entity meets the requirements regarding diversity policies in compliance with the guidelines and regulations on the assessment of the suitability of the members of the governing body and the holders of key functions, considering aspects such as academic profile, professional profile, gender and age in the Policy for the Selection of Candidates for the Governing Board and in the assessment and suitability processes..

It should be noted that, as at 31 December 2018, the minimum percentage established for the under-represented gender is exceeded given that gender parity is maintained in the composition of the Governing Board, the cooperative's highest administrative body, achieved in 2017.

Furthermore, in terms of selection and appointments and renewal of Senior Management members, Caja Laboral has a Succession Plan for key positions, which identifies the critical positions and the professional paths and profiles of origin for their replacement, establishing professional development plans for the people identified and succession plans for each of the positions. The identification of the key positions eligible for a succession plan, as well as of the people capable of becoming the future replacements for the current occupants of such positions, takes into account variables such as training, experience and knowledge, management track record, performance history, personal skills and abilities, commitment to the Entity, potential, etc.

In the 2018 financial year, new appointments to the management team have been approved and will be effective as of 1 January 2019. The Board of Directors in its new configuration represents a more balanced situation in terms of gender and age representation.

C.1.6 Complete the following table regarding the aggregate salary of the board/administrative body members paid during the financial year:

Salary item	Thousands of Euro	
	Individual	Group
Fixed salary	136	
Variable salary	29	
Expenses		
Other payments		
TOTAL	165	

C.1.7 Identify the top management members that are not members of the board or administrative body and indicate the total payment made to them during the financial year:

Name or corporate name	Position
MR JULIO GALLASTEGUI ZUBIZARRETA	General Manager
MR CARLOS OSES IRULEGUI	Deputy Managing Director and Commercial Director
MR OSCAR EGUSKIZA SIERRASESUMAGA	Risks Director
MR JOSU ARRAIZA MARTÍNEZ DE LAGRAN	Media Director
MR XABIER EGIBAR GAINZA	Business Development Director
MR JOSÉ ANTONIO UNANUE ETXEBERRIA	Financial Director
MS NURIA AGUIRRE UNZUETA	Corporate Management Director
Total senior management payments (in thousands of Euros)	984

C.1.8 Indicate whether the board's articles of association or regulations establish a limited mandate for the members of the board/administrative body:

[ ] Yes
[√] No

C.1.9 Indicate whether the individual and consolidated annual accounts that are presented for preparation to the board/administrative body have been previously certified:

[ ] Yes
[√] No

Identify, when appropriate, the person or persons that have certified the individual and consolidated annual accounts for the entity, for their formulation by the board or administrative body:

C.1.10 Explain, if they exist, the mechanisms established by the board or administrative body to prevent the individual and consolidated accounts they have formulated being presented at the general council or equivalent body with exceptions in the audit report.

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the supervision of the preparation and presentation of the regulated financial information and the supervision of the effectiveness of the internal control systems.

C.1.11 Is the secretary of the board or administrative body also a member of the board?

[√] Yes
[ ] No

C.1.12 Indicate, if they exist, the mechanisms established to maintain the independence of the external auditor, the financial analysts, the investment banks and the classification agencies, including how legal provisions have been implemented in practice:

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the task of establishing the suitable relationships with the account auditors or audit companies in order to receive information regarding matters which may present a risk to their independence, requiring annual written confirmation of this independence. In this regard, the Audit Committee has issued a report in which it expresses an opinion confirming the independence of the external auditor, prior to the accounts audit report being issued.

C.2. Committees of the board or administrative body

C.2.1 List the committees of the board or administrative body:

Name of the committee	No. of members
AUDIT COMMITTEE	3
APPOINTMENTS COMMITTEE	5
REMUNERATION COMMITTEE	5
RISKS COMMITTEE	5

C.2.2 Describe all the committees of the board or administrative body, their members and the proportion of executive, shareholding, independent and other external board members of which they are comprised (the entities which do not have the legal form of a limited company will not fill in the category of the board member in the corresponding fields and will explain the category of each board member in the text section according to its legal regime and the way in which they meet the constitution requirements of the audit committee and of the appointments and remunerations committee):

Audit Committee		
Name	Position	Category
MS MARÍA CARMEN INURRIA LANDERAS	CHAIR	
MS ELENA ZARRAGA BILBAO	MEMBER	
MR ADOLFO PLAZA IZAGUIRRE	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	10

Explain the functions, including, where appropriate, those additional to the functions stipulated by law, attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Audit Committee's specific duties are those set out in the Articles of Association (art. 36.nine), that is to say:

a) To inform the General Meeting about the issues raised there by shareholders on matters within their competence.

b) To propose to the Governing Board, for submission to the General Meeting, the appointment, extension or termination of the external account auditors.

c) To supervise the internal audit services.

d) To be aware of the financial information process and the company's internal control systems.

e) To communicate with the external auditors to receive information about matters that could compromise their independence and any other information related to the accounts audit process, plus any other communication required by account auditing legislation and the technical audit standards. Each year, they must receive from the auditors a written confirmation of their independence vis-à-vis the Entity and entities directly or indirectly related to it, as well as information on additional services of any kind provided for these entities, in accordance with the audit regulations.

f) To issue an annual report, prior to the publication of the accounts audit report, expressing an opinion on the independence of the account auditors or audit companies. This report shall, in all events, give an opinion on the provision of the additional services, referred to in the previous paragraph.

Similarly, pursuant to Article 10.3 of the Regulations of the Governing Board, it is also responsible for supervising the process of preparing and presenting regulated financial information and supervising the compliance with codes of conduct and corporate governance rules.

The Articles of Association of the Company establish that the audit committee will meet whenever it is considered appropriate when called by its Chair or at the request of any of its members. Each of them has one vote and motions are adopted by simple majority and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the committee, Maria Carmen Inurria (Committee Chairperson) and Elena Zagarra are independent board members (67% of the total) and Adolfo Plaza is a "working partner board member" (33% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

With regard to the most significant actions of the Audit Committee in 2018, the following are highlighted:

- It has supervised the process of preparing and presenting the financial information published by Caja Laboral, through the Internal Audit Department's releases, highlighting the following verifications:

- Review of the individual and consolidated financial accounts prepared by the entity and the corresponding management reports.

- Review of the quarterly consolidated public financial statements submitted to the Bank of Spain

- Review of the information on market transparency published twice a year by the entity

- Revision of the first application of Circular 4/2017 and IFRS 9

- Six-monthly review of the statement of equity submitted to the Bank of Spain

- Review of the prudential information published by the entity

- It has supervised the Financial Information Internal Control System (FIICS) through the review procedure established by the Internal Audit Department.
- It has supervised the capital and liquidity self-assessment process carried out by the entity.
- It has supervised the process of preparing and presenting the Recovery Plan.
- It has supervised and evaluated the internal audit function, ensuring its independence and effectiveness, receiving regular information on the activities carried out by the Internal Audit Department.
- It has adopted the resolution to propose to the Governing Board, for submission to the General Meeting, the extension of the external audit contract, after evaluating the performance of the accounts auditor.
- It has monitored the result of the external audit, holding joint meetings with the external auditor, analysing and reviewing the aspects considered to be especially relevant.
- It has expressed an opinion, confirming the independence of the external auditors, prior to the accounts audit report being issued.
- It has evaluated and approved, where appropriate, those services additional to the audit services that the entity proposed to outsource to the external auditor.

Identify the board members of the audit committee who have been appointed, taking into account their knowledge and experience in accounting and/or auditing, and provide the date on which the Chair of this committee was appointed to the post.

Name of the board member with experience	MS ELENA ZARRAGA BILBAO
Date the Chair was appointed to the post	29/07/2015

Appointments Committee		
Name	Position	Category
MS ITZIAR ELGARRESTA IBARRONDO	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR FRANCISCO JOSÉ DEAN PUEYO	MEMBER	
MS MARIA ESTHER KORTA ERRAZKIN	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	6

Explain the functions, including, where appropriate, those additional to the functions stipulated by law, attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Governing Board agreed, on 29 April 2016, to formally establish the Appointments Committee and the Remuneration Committee as separate Committees, modifying Article 11 of the Governing Board Regulations.

The specific duties of the Appointments Committee are those set out in the Governing Board's regulations (art. 11.b), i.e:

- To identify and recommend, with a view to their approval by the Governing Board or the General Meeting, candidates to fill vacancies on the Governing Board.
- To evaluate the balance of expertise, ability, diversity and experience of the Governing Board and to develop a description of the duties and aptitudes required for a specific appointment, evaluating the expected time commitment for the post.
- To regularly evaluate, at least once a year, the structure, size, composition and performance of the Governing Board, making recommendations to it regarding potential changes.
- To regularly evaluate, at least once a year, the suitability of the various members of the Governing Board and of the latter as a whole, and to report to the Governing Board accordingly.
- To regularly review the Governing Board's policy on the selection and appointment of senior management members and make recommendations.
- The functions assigned in the Selection and Suitability Assessment Procedure Manual for board members and key staff.
- To establish a target for the representation of the least represented sex in the Governing Board and develop guidance on how to increase the number of people of the least represented sex with a view to achieving this target.

The Regulations establish that the Appointments Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the Committee, Itziar Elgarresta (Committee Chair) and Esther Korta are independent board members (40% of the total), Pablo Luis Bringas and Francisco Jose Dean are working partner board member (40% of the total) and Txomin García is other external board member (20% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

With respect to the most important actions in 2018 of the Appointments Committee, the following are noteworthy:

- The continued evaluation of the suitability of the members of the Governing Board, General Management and Key Personnel and the assessment of the balance of knowledge, ability, diversity and experience on the Governing Board.
- Review of the proposal for the Governing Board policy on the selection, appointment and succession of the members of Senior Management.
- Validation of the business and professional integrity and the suitability of the knowledge and experience of the people selected to form part of the Key Personnel (Business Development Director, Commercial Director Ekia, Commercial Director Mendebaldea and Financial Management Director).
- Analysis of the proposed profile needed to fill the position of Managing Director.
- Validation of the report on the suitability of the candidate for Managing Director.
- Analysing the application of the procedures followed for the selection and appointment of senior management members appointed in 2018.
- Updating the policy for the selection of candidates for board members.
- Determining the profiles required for the partial renewal of the members of the Governing Board.

Remuneration Committee		
Name	Position	Category
MS ITZIAR ELGARRESTA IBARRONDO	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR FRANCISCO JOSÉ DEAN PUEYO	MEMBER	
MS MARIA ESTHER KORTA ERRAZKIN	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	6

Explain the functions attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Governing Board agreed, on 29 April 2016, to formally establish the Appointments Committee and the Remuneration Committee as separate Committees, modifying Article 11 of the Governing Board Regulations.

The specific duties of the Remuneration Committee are those set out in the Governing Board's regulations (art. 11.c), i.e:

- To propose to the Governing Board the general remuneration policy applicable in the entity and prepare the decisions to be taken by the Governing Board regarding remuneration, including those that have an impact on the risk and risk management of the entity.
- To report to the Governing Board on the remuneration policy for directorates included in the "identified group" as well as general remuneration of directors when they are remunerated for this position and for the General Manager and assimilated directors, as well as individual remuneration and other contractual conditions for members of the Governing Board who perform executive functions.
- To ensure that an independent, internal or external, annual evaluation of the implementation of the remuneration policy is carried out.
- To ensure compliance with the remuneration policy established in the company and to periodically review the remuneration policy applied to directorates included in the "identified group" when they are remunerated for such status and to the Managing Director and the like.

- To perform the other duties established by current legislation, the Articles of Association, as well as those assigned by the decision of the Governing Board.

The Regulations establish that the Payments Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the Committee, Itziar Elgarresta (Committee Chair) and Esther Korta are independent board members (40% of the total), Pablo Luis Bringas and Francisco Jose Dean are working partner board member (40% of the total) and Txomin García is other external board member (20% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

With respect to the most important actions in 2018 of the Remuneration Committee, the following are noteworthy:

- Update of the Remunerations policy of Caja Laboral Popular Coop.de Crédito, proposing modifications in the list of persons included in the identified group.
- Proposal for the formulation of 2018 objectives and the application of 2017 individual variable remuneration to the members of the identified group.
- Presentation of the internal evaluation report on Caja Laboral's remuneration policy.
- Proposing the remuneration for the appointments resulting from the replacement of the Managing Director and the PD60, which led to the appointment of four new members of the Board of Directors.

Risks Committee		
Name	Position	Category
MS ELENA ZARRAGA BILBAO	CHAIR	
MS NAGORE LARRABEITI LIBANO	MEMBER	
MR LUIS MARIA UGARTE AZPIRI	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MS AINHOA GALLASTEGUI MARTÍNEZ	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	8

Explain the functions attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Risks Committee has the specific duties described in the Governing Board's regulations (art 11 bis) i.e.:

- To advise the Governing Board with regard to global risk propensity, current and future, of the entity and its strategy on this matter, assisting it in the monitoring of the application of this strategy and the specific policies of management, supervision and reduction of risks to which the entity is or may be exposed.

- To ensure that the assets and liabilities pricing policy offered to clients takes into account the business model and the risk strategy of the entity. Otherwise, to present the governing board with a plan to resolve it.

- To advise the Governing Board on the management and supervision of all the relevant risks of the entity.

- To advise the Governing Board regarding stress tests and capital planning in relation to risks.

- To ensure that suitable resources are assigned to risk management and the efficiency of the internal organisation.

- To ensure that there are efficient channels of information in terms of risks from the Governing Board to the organisation and vice versa, defining, together with the Governing Board, the nature, quantity, format and frequency of the information on risks which must be received by the committee and the Governing Board.

- To supervise the valuation of assets, the use of external credit classifications and the internal models regarding risks.

- To help establish rational remuneration practices and policies. To examine whether the incentives policy planned in the remuneration system takes into account the risk, capital, liquidity and probability and opportunity of profit.

The Regulations establish that the Risks Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the committee, Elena Zarraga (Committee Chair) and Nagore Larrabeiti are independent board members (40% of the total), Ainhoa Gallastegui is a working partner board member (20% of the total), Txomin García is an other external board member (20% of the total) and Luis Maria Ugarte is a shareholding board member (20% of the total). There are no executive board members on the committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

In relation to the work carried out in 2018, the Risk Committee in the performance of its duties has carried out:

- The monitoring and control of all risks through quarterly ALCO releases.
- It has analysed and validated the modifications of the various risk policies and manuals.
- It has analysed and validated the update of limitations and competences for the various types of risks.
- It has analysed and validated the 2017 IAC.
- It has analysed and validated the Recovery Plan.
- It has analysed and validated the risk appetite framework (RAF), the annual risk appetite statement (RAS) and performed its monitoring, and the stress testing methodology and scenario.
- It has analysed and validated the control of the fact that the prices of the formalised transactions exceed the cost of the transaction, in accordance with Annex IX.
- It has analysed and validated the proposed remuneration policy.
- It has analysed and validated the merger project between Mondragón Promoción and Mondragón Innovación.

D. LINKED OPERATIONS AND INTERGROUP OPERATIONS

D.1. Give details of the operations performed between the entity or entities in your group, and the shareholders, cooperative members, holders of property rights or any other of an equivalent nature in the entity:

D.2. Give details of the operations performed between the entity or entities in your group, and the entity's administrators or members of the administrative body or directors.

D.3. Give details of the intergroup operations.

D.4. Give details of the mechanisms established to detect, determine and resolve possible conflicts of interest between the entity or its group, and its board/administrative body members or directors.

In addition to the legally established possibility of challenging the motions agreed by the General Meeting and the Governing Board that harm the interests of Caja Laboral, to the benefit of one or more shareholders or third parties, the following specific regulations can be applied, regarding any possible conflicts of interest:

a) In compliance with article 7 of the Risks Policy Manual, and as a general criterion, all the risk operations proposed by the members of the Governing Board, General Manager, their family members up to second degree consanguinity and related companies will require centralised approval and must be submitted for the approval or ratification of the Governing Board, requesting authorisation from the Bank of Spain when exceeding the limits and terms established in standard 35 of the Bank of Spain Circular No. 2/2016 regarding supervision and solvency or otherwise being the object of immediate notification.

b) The need to meet the requirements, which are indicated below, for agreements of the Governing Board regarding risk operations specified in letter a) above. The requirements are as follows:

- The agreement must be adopted by secret ballot, with prior inclusion of the matter on the agenda with due clarity.
- The motion must be adopted by a majority of at least two-thirds of the total number of board members. If the beneficiary of the operation or service is a board member or a member of their family as indicated above, they will be considered as having a conflict of interest and will not be able to take part in the voting.
- Once the secret ballot has been held and the result announced, it will be appropriate to officially record any reservations or discrepancies with respect to the motion adopted.

These same requirements must be met when it comes to establishing, suspending, modifying, renewing or terminating obligations or rights of Caja Laboral with entities in which those persons or their aforementioned relatives are employers, directors, administrators, senior managers, advisers or basic members with a stake in the capital equal to or greater than 5%.

The appointment of board members is subject to a suitability manual which requires a signed declaration stating the absence of continued or structural conflicts with the interests of Caja Laboral as a necessary requirement to prove the suitability of the board member. Similarly, this situation is verified on an annual basis, without prejudice to the fact that the Board Member is responsible for immediately notifying Caja Laboral of any circumstances that could affect his or her suitability and is responsible for any damage that may be caused to the company as a result of the absence or delay of such notification.

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the entity's Risk Management and Control System:

The risk management system operates comprehensively, with responsibility for the admission, monitoring and recovery of traditional credit risk and the measurement and control of interest rate, liquidity, market and operational risks being centralised in the Risk Department.

All risks are managed centrally, with the Assets and Liabilities Committee meeting monthly and, in the case of operational risk, the Operational Risk Committee meeting quarterly. Except for the treasury and capitals market risks, which are expressly delegated to the Treasury Department, and the credit risk for that related to attributions corresponding to branches or the Risk Division.

At least quarterly, the ORC reports on the control of all risks to the Risk Committee and the Governing Board.

E.2. Identify the bodies within the entity responsible for the development and execution of the Control System and Risk Management:

Governing Board: highest administrative body. It has the ultimate responsibility for monitoring and supervising the risks incurred by the entity. To carry out its functions, it relies on the Risk Committee, made up of members of the Board of Directors, and on its direct presence on the Main Risk Committee. It requires a rigorous risk control and systematic risk disclosure from the ORC.

General Management: responsible for the implementation of risk policies, through delegation by the governing body. It has organised the risk function on the premise of separation of roles between sales management and assumption of risks.

The Risks Division, specifically the ORC, reports quarterly on the monitoring and control of all risks to the Risks Committee and the Governing Board, specifying the level of compliance with the different limits and procedures established.

Assets And Liabilities Committee: the body responsible for managing interest rate, liquidity, market and credit risks, within the limits established by the Governing Board. The ORC reports monthly on risk monitoring, and this committee makes the relevant management decisions in relation to liquidity, interest rate and market risks.

Operational Risk Committee: operational risk control body. The ORC submits a quarterly report on the monitoring of operational risk.

Risk Division: centralises responsibility for the admission, monitoring and recovery of individual and company credit risk and for the construction and maintenance of credit risk internal models, as well as the measurement and control of liquidity, interest rate, market and operational risks.

Global Risk Control Department: reports hierarchically to the Risks division and functionally to the Risk Committee. It provides an overview of all the risks by measuring and controlling all the risks. As such, it is responsible for the preparation of credit risk monitoring and internal admissions models, as well as the measurement and control of liquidity, interest rate, market and operational risks. Reports to the COAP, the Risk Committee and the Governing Board.

Risk Management Department: answerable to the Risk Division. It is responsible for managing both domestic and commercial credit risk, both in terms of acceptance and the monitoring and recovery of irregular situations in its friendly and pre-litigation phase. It intervenes in the penalisation of failures and has powers up to a certain level.

Legal Advice Department: answerable to the Risk Division. It provides legal documentary cover and support for risk operations as well as for the management of disputes within the business network.

Treasury Department: answerable to the Finance Division, it manages the credit risk with financial institutions and private fixed income, market risks, short-term liquidity risk and positions arising from the decisions made in the ALCO.

Regulatory Compliance Department: internal control organisation and monitoring of the various areas of regulatory compliance. It coordinates the different divisions and departments of the entity.

Branch office network: first phase in the individuals and companies credit risk acceptance process, up to the limit of their scope in which they have delegated functions due to scoring/rating levels, alerts and competences which make up the entity's risk policy. If the risk admission exceeds the powers of the retail network, the approval is raised to the Risk Area.

Internal Audit: independent and objective role of assurance and advice, providing a systematic and disciplined approach to assess and improve the efficiency of risk management, control and governance processes.

E.3. Indicate the main risks which could affect the attainment of the business goals.

The credit risk of the traditional business with individuals and companies (including concentration risk), structural interest rate risk, liquidity risk, treasury and capital market risks (sovereign risk, counterpart, country, concentration and market risks), operational risk, regulatory risk, reputational risk and business risk.

E.4. Identify whether the entity has risk tolerance levels.

The Risk Appetite Framework (RAF) is the main tool used by the Governing Board to establish, manage and control the types and levels of risk that it is prepared to assume in order to achieve its strategic objectives. The RAF allows the people who determine the Entity's strategy to consciously accept the risks that correspond to such a strategy.

In relation to Governance, the Global Risk Control Department is responsible for managing all issues related to the RAF, identifying needs, coordinating all the areas involved and presenting the different proposals to the ALCO/Risks Committee/Governing Board. The COAP and the Risk Committee have a leading role in the analysis and supervision of the proposals, prior to their submission to the Governing Board for approval.

In order to establish the risk appetite, the Entity takes into account its capacity to assume risks, mainly by taking into account:
- The financial capacity (capital and liquidity) of the Entity to assume risks
- The business environment: macroeconomic situation, regulatory risks
-The risk culture in the Entity
-The inherent risk in each type of risk
-The degree of preparation and ability to take on each type of risk

The RAF incorporates a structure of metrics relating to the profitability, solvency, liquidity and different types of risk that the Entity manages. There is a first level, with the core indicators, and a second level with indicators that develop or complement those of the first level. The profitability, solvency and liquidity are considered to be priority dimensions, being established within the first level of
CORE indicators related to these dimensions. All of the above metrics are assigned objectives and observation and tolerance thresholds, which allow us to specify the level of risk that the Entity is willing to assume, i.e. its level of risk aversion.

To achieve its strategic objectives, the Entity wishes to maintain a medium-low risk profile, which is specified in its Risk
Appetite Statement (RAS). The RAS establishes observation and tolerance thresholds consistent with a prudent risk policy aimed at keeping the Entity within comfortable levels of capitalisation and liquidity, even in stress scenarios. The Entity monitors these indicators, having established an action procedure if the thresholds are exceeded.

E.5. Indicate which risks have materialised during the financial year:

Regarding the interest rate risk, the limit set by the governing body and controlled by the ALCO has never been exceeded.

For market risks, the excesses are supervened, i.e. motivated by the reduction of limits and not by increases of the position. In these cases the control systems have worked properly, with the ALCO having been informed of the mentioned excesses and having decided whether or not to maintain the position.

As regards liquidity risk, there has not been any stress situation. The systematic monitoring of the entity's liquidity and the analysis of its deviations from the forecasts and the finance plans updated monthly monthly allow sufficient time to anticipate possible unfavourable mid-term impacts, generating the necessary corrective actions in enough time.

Relating to the credit risk and regarding operations with the individuals and company segments, when the risk with a creditor exceeds the attributions in an organisation, the ruling is implemented in the organisation with the next higher level of attributions. In operations with financial institutions and large corporations, the activity has been carried out within the Entity's risk management framework, which sets limits significantly lower than the levels set by the regulations for large risks.

As for operational risk, the operational losses that inevitably occur as a result of the activity of the entity are reduced as a result of the controls established in the qualitative section. The entity has made provisions in anticipation of future needs.

As regards reputational risk, no new situations have arisen that have generated significant negative publicity.

E.6. Explain the response and supervision plans for the entity's main risks, as well as the procedures followed by the company to ensure that the board of directors responds to new and emerging challenges:

Internal supervision of the risks of the entity is determined by the activities of Internal Audit, which are aimed at assessing and improving the efficiency of the risk control and management processes.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS RELATED TO THE PROCESS OF FINANCIAL INFORMATION (FIICS)

Describe the mechanisms which form the risk control and management systems related to the process of issuing financial information (FIICS) of the entity.

F.1. Entity control environment.

Give details, highlighting the main characteristics of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of a suitable and effective FIICS; (ii) its implementation; and (iii) its supervision.

Caja Laboral has implemented internal control mechanisms in order to guarantee that the financial information published in the markets, concerning both the entity and the group, is complete, reliable and appropriate. This process has been reinforced with the completion during 2014 of the Financial Information Internal Control System (hereinafter, FIICS).

In section 3.6. -reliability of the information from the Code of Ethics and Professional Conduct of Caja Laboral, defines both the governing bodies and the roles assigned to each of them, in relation to FIICS:

-The Caja Laboral Governing Board is the body ultimately responsible for establishing, maintaining and guaranteeing a suitable and efficient FIICS, which controls and ensures that the financial information published in the markets, concerning both the Entity itself and the Group, is complete, reliable and appropriate.

-The Management Board and the Internal Audit Department are responsible for designing and implementing effective control procedures to permanently guarantee the reliability of the financial information supplied to the market. To this end, it will supply the entity with sufficient human and material resources, providing the people involved in the preparation of the financial information with the necessary training for them to perform their tasks.

The Audit Committee is responsible for overseeing the proper functioning of the FIICS through monitoring the preparation and presentation process of the regulated financial information and, especially, the legal requirements and the correct application of the generally accepted accounting principles. For this task, it is supported by the Internal Audit Department which assists the audit committee in reporting on the supervision of the correct design and implementation of the risk control and management systems, including the FIICS, and supervises their correct and efficient working order.

Lastly, the Management Control and Planning Department, under the direction of the Finance Division, cooperates in the design and implementation of risk control and management systems, especially regarding the process of preparation, presentation and integrity of financial information which is disseminated in the markets.

F.1.2 If they exist, especially regarding the process of preparing financial information, the following elements:

- Departments and/or mechanisms responsible: (i) for the design and review of the organisational structure; (ii) for clearly defining the lines of responsibility and authority, with appropriate distribution of tasks and roles; and (iii) for there being sufficient procedures for their correct dissemination within the company:

Design and review of the organisational structure is the responsibility of the Organisation Department, which analyses and reviews the need for resources of each Division so that it can be met. This review, which is carried out at the divisions and departments level of central services when the need arises to adapt their organisational structure, not only decides the staffing required but also validates the organisational structure of each unit.

Thus, within the scope of the commercial branch network, using a computer application designed for the purpose, the work load of each branch is measured each month. This information is transferred to the general management, the HR management and the commercial network management in order to apply the adjustments that need to be made to resources.

The Organisation Department is also responsible for defining the lines of responsibility and authority in each area of activity, and for the duties and tasks carried out therein, publishing them in the directory of each division.

In 2015, the Organisation Manual was approved, a single repository for the tasks performed in the organisation, and in 2016 it was published on the corporate Intranet to which all staff have access, together with the entity's general organisational chart.

· Code of conduct, approving body, level of dissemination and instruction, principles and values included (indicating whether there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing non-compliance and for proposing corrective actions and disciplinary measures:

The entity has a code of ethics and professional conduct, the last update of which was approved by its Governing Board in June 2015.

The Code of Ethics and Professional Conduct establishes, in section 3.6, aspects to be taken into account regarding reliability of financial information, of which the following are noteworthy:

-Caja Laboral is responsible for providing reliable, accurate, complete and timely information on its financial statements and on events which may have a significant impact on these.

-In addition to the procedures established in the Group to ensure that the financial information is prepared in compliance with the valuation regulations and principles in force, all the work associates and employees have the obligation to diligently comply with their tasks regarding the recording and treatment of the information, which constitutes the basis of the Group's public financial information preparation process.

-The application of this responsibility is especially important with regard to the data and reports which are required for preparing the Group's financial statements, as its adequate recording and interpretation are essential in order to ensure a correct application of the relevant valuation criteria for each accounting balance, transaction or contingency.

In June 2015 a Manual on prevention and the response to crime and the corresponding policy of criminal compliance was approved, thereby ratifying the firm stance of Caja Laboral to maintain conduct that respects both the regulations and ethical standards and establishing its framework of principles of compliance in criminal matters. By virtue of this manual, the Ethics Committee assumes the role of ensuring compliance with the principles of the code of ethics and professional conduct, in general, and the monitoring of potentially illicit conducts from a criminal perspective.

Furthermore, Caja Laboral also has an internal code of conduct in the area of the securities market, which was last updated with the approval of the Governing Board in May 2018, which applies to the members of the Governing Board of Caja Laboral, members of the Boards of Directors of the group's companies and to all those people, whether or not they are managers, whose work is directly or mainly related to the activities and services of the entity in the securities market area or who frequently or usually have access to relevant information about Caja Laboral.

· Complaints procedure, which allows the Audit Committee to be notified of any financial or accounting irregularities, as well as any breaches of the code of conduct and any irregular activities in the organisation, informing where applicable if it is of a confidential nature.

As a result of the approval of the Manual on Prevention and Response to Crimes, the complaints channel is managed by the Ethics Committee, which includes the Director of Internal Audit.

This complaints channel is available to all partners, employees and administrators of the different companies which are part of the group. Its operating system is part of the entity's Manual on Prevention and Response to Crimes. Through this channel, the Ethics Committee is informed of any potential non-compliance with the code of ethics and professional conduct, of operations and behaviour contrary to the legislation in force and the internal regulations and any potentially significant irregularities, especially financial and accounting irregularities.

The entity's Manual on Prevention and Response to Crimes describes the scope, content and use of the channel, ensuring the confidentiality of the complaint.

In addition, the Audit Committee is regularly informed of the work carried out by Internal Audit, including that related to any irregular actions within the organisation.

· Regular training and refresher programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the FIICS, to cover at least accounting standards, audit, internal control and risk management:

The entity has a training plan which ensures that the personnel directly involved in the drafting and preparation of the financial information, and in its review, have the training and professional skills necessary to carry out their duties. In this respect, these members of staff are permanently informed about the regulatory requirements in force.

The training programmes and activities are managed by the training section of the entity, which also keeps an up-to-date record of all the courses carried out and their characteristics. Some of the aspects covered in the fields of FIICS during 2018 are described below: Financial risk management and control, Solvency management, Corporate governance and regulatory compliance, Bank accounting, Tax principles and Financial markets and investment management.

The training sessions are in person and on-line through internal and external trainers.

F.2. **Financial information risk assessment.**

Give details of at least:

F.2.1 The main characteristics of the risk identification process, including those of error or fraud, in terms of:

· Whether the process exists and is documented:

The FIICS has been developed by the entity management in accordance with the international standards established by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter, COSO); which establishes five components on which to base the efficiency of the internal control systems:

- To establish a suitable control environment for monitoring all these activities.
- To evaluate all the risks which an entity could incur during the preparation of its financial information.
- To design the controls required to mitigate the most critical risks.
- To establish the appropriate information circuits in order to detect and communicate the weaknesses or inefficiencies of the system.
- To monitor these controls to ensure its effectiveness and the validity of its efficiency over time.

Thus, the process for identifying risks with a potential impact on the financial statements is significant, focusing on identifying the critical management processes related to the generation of financial information and the areas or headings of the financial statements where the mentioned risks materialise. In the process of analysing processes and areas, both quantitative (balance and granularity) and qualitative factors (degree of automation of the processes, operation standardisation, level of accounting complexity, changes with regard to the previous financial year, identified weaknesses in control, etc.) are considered.

The financial information internal control risks evaluation and identification is dynamic, it continuously evolves over time, reflecting the reality of the business of the group, the risks which affect it and the controls which mitigate it, at each moment in time. The evaluation of the effectiveness of the FCIIS controls is performed based on the indicated risks identification process, taking into account the changes in the organisation and business of the group and considering the level of materiality, probability of occurrence or possible financial impact of the risk which include the mentioned controls.

· Whether the process covers all objectives of the financial information (existence and occurrence; integrity; valuation; presentation; breakdown and comparability; and rights and obligations), and whether it is updated and with what frequency.

The process has been designed taking into account all objectives of the financial information considered in the Internal Control Document on financial information in the listed entities issued by the CNMV (existence and occurrence, integrity, valuation, presentation, breakdown and comparability, and rights and obligations).

As indicated above, the criteria to be followed for all types of identifiable risks and which are included in the design of the FIICS are both quantitative and qualitative, as well as considering the identification of error and fraud risks related to published financial information.

The foreseen frequency of the identification process of the relevant material areas and processes is at least annually, using the most recent financial information. Furthermore, this evaluation will also be performed whenever circumstances arise which have not been previously identified and which show possible errors in the financial information or when substantial changes are made in the operations which may lead to the identification of new risks, including situations which entail changes in the structure of the Group, such as: modifications to the scope of consolidation or in the business lines, or other relevant events, among other aspects.

· The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental or special purpose entities:

The entity has a procedure for identifying and updating the scope of consolidation, which is the responsibility of the Inspection Department. Every quarter, this department reviews the inventory of investee companies in order to detect any variation that may be included in the systems to obtain the consolidated financial information.

· Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax related, reputational, environmental, etc.), insofar as they affect the financial statements:

As mentioned above, and due to the control standards and methodology implemented, the effects of other types of risks (market, credit, operational, technological, financial, legal, reputational, of any other nature) are taken into account insofar as they may affect the financial statements.

Regarding operational risk, Caja Laboral has a model for managing operational risk, which includes a risk identification process (map showing the risks of internal and external fraud, and technological, operative, business practices and loss risks) and the controls that mitigate them, as well as a quantitative assessment of them. The model is directly monitored by the Operational Risk Committee and contained in a computer application and in various policy, procedure and user manuals. Responsibility for monitoring assessment of the operational risks and the controls allocated to them falls on the internal audit department.

· Which governing body of the entity supervises the process:

The execution of the risk identification and controls procedure is the responsibility of the Planning and Management Control Department, which reports to the management of the Financial Division, while its supervision is entrusted to the Audit Committee, through the Internal Audit Department.

F.3. **Control activities.**

State, highlighting the main characteristics, whether you have at least:

F.3.1 Procedures for the review and authorisation of financial information and the description of the FIICS, to be published in the securities markets, listing those responsible for them and the documentation describing the flow of activities and controls (including those related to fraud risk) of the different types of transactions that could materially affect the financial statements, including the book closing procedure and the specific review of the relevant opinions, estimates, appraisals and forecasts.

The procedures for the review and authorisation of financial information of the group which is published in the markets begins with the review by the Finance Division management. The individual and consolidated annual accounts are reviewed by the Internal Audit Department as the preceding step to their formulation by the Governing Board. The Audit Committee then reads the information and discusses it with the managers from the Finance Division, Internal Audit and with the external auditors, before it is sent to the Governing Board.

Regarding activities and controls directly related to transactions that could materially affect the financial statements, the entity has procedure manuals specific to the divisions and departments and to the financial information control divisions. These manuals are drafted by the divisions and approved by the Governing Board.

The procedures include the organisation chart and the functions involved in the process, the systems involved and the description of the process. Additionally, the risk and control matrices include, among others, the following fields:

- Description of the risk.
- Control activities.
- Control classification: key/standard.
- Control category: preventive/detective.
- Method: manual/mixed/automatic.
- System which supports the control.
- Control manager and executor.

- Control frequency.
- Control evidence.

The significant processes (distinguishing between transversal and business processes) associated with the entity's Finance Divisions for which the aforementioned documentation is available are listed below:

Transversal processes:

- Accounting closure.
- Consolidation.
- Legal and tax management.
- General computer controls.
- Judgements and estimations.

Business processes:

- Credit investment
  - concession.
  - monitoring and recovery.
- Financial instruments.
- Real estate assets received as payment of debt.

The descriptive documentation described above includes:

- A description of the divisions and departments involved in each of the identified processes.
- The description focused on the preparation of financial information of the procedures, controls and verifications of the activities related to the process from the beginning.
- The identification of the computer systems involved in each process.
- The identification of relevant risks with a material impact on the entity's financial statements.
- The identification of the controls and their description, as well as their association with the previously identified risks.

The Caja Laboral accounting closure procedure is automated and the accounting takes place automatically through the entity's various applications. After this initial process has taken place, the Inspection Department reviews the information, comparing it to both the data from the previous month and the forecast figures, in order to validate the closure of the balance sheet and profit and loss account for the month.

Accounting closure of the subsidiaries is carried out by their corresponding entity, except in the case of the real estate promotion companies, which are sub-contracted to a third party. Once the information has been received from the subsidiaries, a review is performed by the Caja Laboral Inspection Department in order to carry out the consolidation process.

As mentioned in the annual accounts, estimations have been used, as appropriate, for the valuation of certain assets, liabilities, income, expenditure and commitments performed by the Senior Management of the Parent Entity and of the Investee Entities and ratified by their Administrators. In these financial accounts, the entity reports on the most relevant areas in which there are judgement or estimation parameters, as well as the key assumptions included by the group with respect to them. In this respect, the main estimations made make reference to:

- The losses due to deterioration of certain assets.
- The useful life applied to the elements of the tangible and intangible assets.
- Valuation of goodwill for consolidation.
- The fair value of certain unquoted assets.
- The expected cost and evolution of contingent liabilities and provisions.
- Hypotheses used for calculating insurance liabilities.
- The actuarial hypotheses used for calculating the post-employment remuneration liabilities and commitments.
- The recoverability evaluation of activated tax credits.

In addition, Caja Laboral has, within the FIICS, a general policy for giving judgements and estimations, covering all the aspects to be considered and the responsibilities in its preparations and review.

F.3.2 Policies and procedures for internal control over the information systems (amongst others, secure access, monitoring of changes, their implementation, operational continuity and separation of roles) that support the relevant company processes in relation to the preparation and publication of financial information.

Caja Laboral uses information systems to keep a correct record and control of its operations and is therefore highly dependent on their correct functioning.

The Entity has designed a Security Regulatory Unit (SRU), a collection of documents containing the mandatory corporate security requirements. It is made up of policies that detail at a high level the objective of each Division and corporate standards that define the specific controls to be implemented for each of the security areas. The Security Regulatory Unit is applicable to the entire entity and the functions and responsibilities have been defined.

In addition, a Security Committee has been created which is the body directly responsible for the security practices defined in the Entity's SRU.

There are up-to-date policies, standards and procedures for information systems security. These establish the technical and organisational guidelines required for alteration, loss, unavailability and unauthorised processing of or access to the Organisation's resources and data.

The Entity has defined and formalised a procedure which regulates the steps to be followed for the recording and management of the changes implemented. In addition, the Entity has a procedure and method for testing new developments and maintaining existing ones. New developments or improvements to the Entity's information systems must meet information security requirements in order to guarantee the availability, confidentiality and integrity of the information contained therein.

Caja Laboral has a disaster response and recovery plan that is made known to employees, reviewed and updated on a regular basis.

In summary, Caja Laboral has a General Computer Control Procedure that establishes the basis for internal control over the information systems that support the Entity's processes in connection with the preparation and publication of financial information.

F.3.3 Internal control policies and procedures intended for supervising the management of activities sub-contracted to third parties, as well as aspects of assessment, calculation or valuation assigned to independent experts, which could materially affect the financial statements.

The entity periodically reviews which activities performed by third parties are relevant to the financial reporting process or could indirectly affect its reliability. To date, the entity has not outsourced processes that have a significant impact on financial reporting. Nevertheless, the entity uses independent expert valuation reports for operational valuations that could potentially materially affect the financial statements.

In 2018, the activities entrusted to third parties related to valuations and calculations by independent experts were those relating to appraisals of foreclosed properties and properties used as collateral for Caja Laboral's loan portfolio operations.

The entity has controls in place to mitigate the risks associated with the activity carried out by valuation companies, which are implemented by the departments responsible for the operation, aimed at guaranteeing the independence of the valuers and the quality of the valuations. It is also supported by the Internal Audit Department for checking the effectiveness of the established procedures.

F.4. **Information and communication.**

State, highlighting the main characteristics, whether you have at least:

F.4.1 A specific role responsible for defining and reviewing accounting policies (accounting policies area or department) and resolving any queries or conflicts derived from their interpretation, maintaining smooth communication with those responsible for the organisation's operations, as well as an accounting policy manual that is updated and sent to all units through which the company operates.

The Inspection Department is responsible for identifying, defining and communicating accounting policies to the Entity, including to the subsidiaries, and for answering any accounting queries that may be presented by the subsidiary companies or business units of the Entity.

The Entity has an Accounting Manual, which determines and explains the regulations for preparing the financial information and how these regulations should be applied to the operations specific to the Entity, such as, for example, consolidation packages for the subsidiary companies. These documents not only refer explicitly to the standards that apply to each type of transaction, but they also develop and explain their interpretation so that they can be adapted precisely to each type of transaction.

These documents are regularly updated and therefore any significant amendments or updates are notified to the companies to which they apply.

The consolidation packages are prepared by each affiliated company of the Financial Group and it is the Inspection Department that supervises the compliance of these investee companies with the accounting policies established by the Group. This Department analyses and reviews the information from the subsidiaries and makes any corrections that may be necessary.

If there are no regulatory changes concerning the financial information that have an impact on the financial statements, the Inspection Department is responsible for revising, analysing and updating the accounting standards. This department is also responsible for communicating changes or updates to the entity's business units and subsidiaries.

The financial accounting information framework applied by the entity and its group includes: (i) the international financial reporting standards adopted by the European Union, and (ii) Bank of Spain Circular 4/2017 dated 27 November.

F.4.2 Mechanisms for capturing and preparing the financial information with standard formats for application and use by all units of the institution or group, which support the main financial statements and the notes, as well as the information detailed about the FIICS.

There are control measures in place to ensure that the back-up data for the financial information is collected in full, and in an accurate and timely manner, being also notified in a timely manner. The process of consolidation and preparation of the financial information is centralised and carried out by the Entity.

This process uses as input the consolidation packages from the financial statements reported by the subsidiaries, following the guidelines and formats in place, as well as the rest of the financial information required, both in the account standardisation process and to cover the information requirements in place. The Inspection Department is responsible for reviewing the financial information reported by the subsidiary companies.

The Inspection Department performs a series of controls to ensure the reliability and correct processing of the financial information received from the subsidiaries and the business units, among which are checks on the correct implementation of the various consolidation entries, variations in the results obtained on the budget and the checks specific to Banco de España, where the various balance sheet and profit and loss account entries are interlinked.

F.5. **Supervising the system's operation**

Give details, highlighting the main characteristics, of at least:

F.5.1. Activities for supervising the FIICS carried out by the Audit Committee, and whether the institution has an internal audit system whose responsibilities include supporting the committee in its task of supervising the internal control system, including the FIICS. Furthermore, information shall be provided about the scope of the evaluation of the FIICS made during the financial year and the procedure used by the person responsible for carrying out the evaluation to report their findings, whether the institution has an action plan containing details of any corrective measures and whether their impact on the financial information has been considered.

Among the competences assigned to the audit committee, as well as that of supervising the internal audit services, are those regarding the supervision of the process of development and presentation of financial information and the internal control systems of the company and delegating the development of these activities to the internal audit department.

To exercise its functions, the internal audit department is divided into four sections: Financial Units Audit, Customer Management Units Audit, Remote Audit and Information Technology Audit, and their main task is to establish the internal control measures necessary to guarantee the reliability of the financial information, operational efficiency (of both procedures and management), compliance with the internal and external regulations that apply, and protection of the Entity's assets.

Furthermore, the entity's Code of Ethics and Professional Conduct establishes that the Governing Body and the Internal Audit Department are responsible for designing and implementing effective control procedures to permanently guarantee the reliability of the financial information supplied to the market.

To achieve its objective, the Internal Audit Area carries out scheduled reviews of the systems implemented for controlling risks, internal operating procedures and compliance with the internal and external regulations that apply at any time.

The Internal Audit Department includes in its annual action plan revisions on the processes considered to be relevant, with the aim of reviewing all of them over a three-year period, with the exception of certain areas or processes considered to be of special relevance, among which are the accounting closure procedure, the review of judgements and estimates and general controls over information systems, for which the evaluation is carried out annually.

The scope of the monitoring and evaluation of FIICS carried out during the 2018 financial year included the following reviews:

- Review of the transversal accounting closure process. In addition, the process of preparing and presenting the financial information published by Caja Laboral was supervised.
- Review of the judgements and estimates used in the calculation of the relevant contingent liabilities and provisions.
- Review of the transversal process of general computer controls.
- Review of the financial instrument process.

In addition, monitoring was performed on the compliance with the recommendations for improvement issued in the review processes carried out in 2016 and 2017.

The result of the review and evaluation of FIICS in 2018 has been regularly presented to the Audit Committee by the Director of the Internal Audit Department.

F.5.2 Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in the Technical Auditing Standards), the internal audit team and other experts can report to senior management and to the Audit Committee or the entity's directors any significant control weaknesses detected during the annual account review processes or any others assigned to them. Also, whether there is an action plan to correct or reduce any weaknesses observed.

the Audit Committee meets the External Auditor at least twice during the financial year:

- The first meeting is held at the end of the preliminary work for the interim visit that forms part of the annual audit, where the external auditor presents the preliminary findings obtained from the work carried out to date.
- The second meeting takes place prior to the formulation of the annual accounts. At this meeting the external auditor presents the final conclusions of the audit.

Moreover, the account auditor has direct access to senior management and to the Internal Audit Division, holding regular meetings with them both to obtain the information necessary for this work and also to discuss any weaknesses detected.

The Memorandum on internal control and administrative accounting procedures issued by the external auditor, which makes suggestions for improvements to the internal control system and associated risks, is presented to the Board of Directors and the Audit Committee, and subsequently submitted to the Entity's Governing Board. This document contains comments from the general management for each recommendation and, where applicable, the action plans or measures adopted to resolve any weaknesses.

Lastly, depending on the importance of the recommendations issued by the External Auditor, the Annual Internal Audit Plan usually includes work for monitoring the measures that have been adopted.

With regard to the result of the work carried out by internal audit, the reports issued are presented by the director of the department to the Audit Committee and, depending on their importance, to the Board of Directors, after verification with the audited area, and the degree of implementation of the recommendations proposed in the reports is monitored.

Furthermore, at least quarterly, the Audit Committee meets at the request of the management of the Internal Audit Department, in order to receive information on the main work carried out by it, thereby fulfilling one of the responsibilities entrusted to the committee.

F.6. Other relevant information.

-

F.7. External auditor's report.

Give details of:

F.7.1 Whether the FIICS information sent to the markets has been subject to review by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for this.

The entity has not considered it necessary to submit the FIICS information sent to the markets for review by the external auditor.

G OTHER INFORMATION OF INTEREST

Whether there is any relevant aspect of corporate governance in the entity or in the group companies that has not been included in the other sections of this Report, but that it is necessary to include in order to provide more complete and reasoned information on the structure and practices of governance in the entity or its group, describe it briefly.

Any other information, clarification or detail relating to the previous sections of the report can also be included in this section as long as it is relevant and does not repeat what has already been stated.

Specifically, indicate whether the entity is subject to any legislation other than Spanish law on matters of corporate governance and, if so, include any information that you are obliged to provide that is not included in this report.

The entity may also indicate whether it has voluntarily adhered to other codes of ethics or good practices, either international, sectoral or of another scope. When applicable, the entity will identify the code in question and the date of adhesion.

1.- This information complements section A. Property structure:

The majority of the cooperatives and their trading companies which are partners of Caja Laboral, in turn form part of Mondragón Corporación Cooperativa. This corporation, which Caja Laboral is part of, is a group of freely associated cooperatives which share a set of cooperative values and which seek to achieve competitive advantages from their joint cooperative action.

Caja Laboral contributes, in the form of a subsidy, to MONDRAGÓN Inversiones S. Coop. and to Fundación MONDRAGÓN (entities belonging to or formed by the cooperatives associated with Corporación MONDRAGÓN), an annual amount equivalent to 15% of the surplus available from the previous year (after taxes and interest on capital) that is deducted from the Inter-cooperative Social Fund (ISF).

2.- This information complements section C.1.6. on the remuneration of directors:

The working partner board members do not receive any remuneration for belonging to the Governing Board, notwithstanding that received for the work they perform in the entity as workers. The rest of the members of the Governing Board do not receive remuneration for belonging to the Board either.

Caja Laboral compensates the dedication of the Chairperson and, through the established procedures, pays the corresponding remuneration by applying the remuneration criteria established by Caja Laboral within the framework of the regulations established for credit institutions.

3. This information complements section C about the structure of the company's administration.

The Governing Board approved in its meeting on 4 January 2019 the voluntary retirement for personal reasons of Ms Maria Carmen Inurria Landeras as a member of the Governing Board of Caja Laboral effective from 2 January 2019.

This annual corporate governance report has been approved by the company's Board of Directors at its meeting held on:

28/02/2019

Indicate the directors or members of the administrative body who voted against or abstained in relation to the approval of this report.

This report has been approved unanimously.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND DIRECTORS' REPORT FOR 2018

The Members of the Parent Entity's Governing Board declare that to the best of their knowledge the attached financial statements have been prepared in accordance with applicable accounting principles and provide a true and fair view of the consolidated equity and consolidated results of the Parent Entity and its investee companies, and that the attached Directors' report includes an accurate analysis of the development and results obtained by the Group during the year ended 31 December 2018.

As a result, the members of the Governing Council of Caja Laboral Popular Coop. de Crédito (Parent Entity) hereby prepare the Consolidated Directors' Report and consolidated financial statements on 28 February 2019 including the notes to the consolidated annual accounts, Consolidated balance sheet, Consolidated income statement, Consolidated statement of recognised income and expenses, Consolidated statement of total changes in equity and Consolidated cash flows statement for the year ended 31 December 2018. All members have signed this page in witness of their agreement and the Secretary to the Governing Council has signed each page of the documents mentioned above for the purposes of their identification.

Txomin García Hernández (Chairman)	Luis María Ugarte Azpiri (Vice-Chairman)	Adolfo Plaza Izaguirre (Secretary)
Elena Zarraga Bilbao (Member)	Ainhoa Gallastegui Martínez (Member)	Javier Oleaga Mendiarach (Member)
Francisco José Dean Pueyo (Member)	Nagore Larrabeiti Libano (Member)	María Esther Korta Errazkin (Member)
Pablo Luis Bringas Velez (Member)	Itziar Elgarresta Ibarrondo (Member)	