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

Audit report,
Consolidated annual accounts at 31 December 2012
and consolidated Directors' Report for 2012

(Free translation of the auditor's report originally issued in Spanish on the consolidated annual accounts prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails)

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the members of Caja Laboral Popular Coop. de Crédito

1. We have audited the consolidated annual accounts of Caja Laboral Popular Coop. de Crédito (Parent Entity) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of total changes in equity, the consolidated cash flow statement and the notes to the consolidated annual accounts for the year then ended. As explained in Note 2 to the consolidated annual accounts, the Parent Entity's Directors are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

2. In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Caja Laboral Popular Coop. de Crédito and its subsidiaries at 31 December 2012 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union and other provisions of the applicable financial reporting framework.

3. Without qualifying our audit opinion, we draw attention to Note 1 to the accompanying consolidated annual accounts, which states that on 30 June 2012 the General Assemblies of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito, respectively, approved the Plan for the merger of those entities, which was approved by the Ministry of the Economy and Competition on 29 October 2012, following a favourable report of Bank of Spain and other supervisory bodies. Under that Merger Agreement, following receipt of all the pertinent authorisations, on 1 November 2012, the dissolution without liquidation of both entities took place together with the formation of a new credit cooperative named Caja Laboral Popular Coop. de Crédito (the New Entity), to which all the assets and liabilities of both entities were transferred on 2 November 2012.

   In addition to the application of accounting and measurement standards required under International Financial Reporting Standards in this kind of business combinations, as endorsed by the European Union, which are mentioned in Note 2 to the accompanying consolidated accounts and the disclosure of the information in the notes to the present consolidated annual accounts required under such legislation, the Directors of Caja Laboral Popular Coop. de Crédito have decided to present, as additional consolidated information (merely for information purposes and therefore not subject to the audit opinion in this Report, although the amounts of that additional proforma information form part of the figures of the accompanying consolidated annual accounts for 2012 of Caja Laboral Popular Coop. de Crédito and subsidiaries), together with the consolidated information for the year ended 31 December 2012, that relating to the consolidated balance sheet, the consolidated income statement and the consolidated statement of recognised income and expense for the period 02 November 2012 to 31 December 2012 (the period during which, for identification purposes, a consolidated profit after tax is reported amounting to €12,480 thousand) given that the Directors consider that such information is relevant to reflect the commercial and economic reality of the resulting activity of the new Cooperative Group as from 2 November 2012, the date of its formation.

4. The accompanying Directors' Report for 2012 contains the information that the Parent Entity's Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated financial statements for 2012. Our work as auditors is limited to checking the Director´s Report within the scope already mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Caja Laboral Popular Coop. de Crédito and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Guillermo Cavia
Audit Partner
05 April 2013

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CAJA LABORAL
EUSKADIKO KUTXA

Translation of the report and annual accounts issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

ASSETS	Note	2012	2012 (*)	2011
Cash on hand and on deposit at central banks	**22**	**354,828**	**354,828**	**184,647**
Trading portfolio	**23**	**135,096**	**135,096**	**118,547**
Debt securities		127,545	127,545	106,150
Equity instruments		-	-	-
Derivatives held for trading		7,551	7,551	12,397
Memorandum-item: Loaned or pledged		-	-	*17,518*
Other financial assets at fair value through profit and loss	**24**	**15,950**	**15,950**	**25,905**
Debt securities		15,030	15,030	25,005
Equity instruments		920	920	900
Available-for-sale financial assets	**25**	**4,017,882**	**4,017,882**	**3,809,881**
Debt securities		3,173,129	3,173,129	2,988,678
Equity instruments		844,753	844,753	821,203
Memorandum-item: Loaned or pledged		*195,263*	*195,263*	*310,537*
Credit investments	**26**	**16,867,185**	**16,867,185**	**15,478,157**
Deposits at credit institutions		327,261	327,261	225,184
Customer loans		16,469,685	16,469,685	15,142,089
Debt securities		70,239	70,239	110,884
Memorandum-item: Loaned or pledged		-	-	-
Held to maturity investments	**27**	**1,868,790**	**1,868,790**	**461,398**
Memorandum-item: Loaned or pledged		-	-	*150,587*
Derivatives held for hedging	**28**	**447,458**	**447,458**	**359,375**
Non-current assets for sale	**29**	**317,892**	**317,892**	**368,591**
Property, plant and equipment		317,892	317,892	368,591
Shareholdings	**30**	**3,345**	**3,345**	**4,413**
Associates		3,345	3,345	4,413
Multigroup entities		-	-	-
Assets held for reinsurance	**31**	**28,311**	**28,311**	**32,663**
Property, plant and equipment	**32**	**439,397**	**439,397**	**389,714**
Property, plant and equipment		402,025	402,025	359,352
For own use		383,318	383,318	338,513
Assigned under operating lease		17,822	17,822	19,923
Associated with Community Projects		885	885	916
Investment properties		37,372	37,372	30,362
Memorandum-item: Acquired under finance lease		-	-	-
Intangible assets	**33**	**34,473**	**34,473**	**34,952**
Goodwill		33,425	33,425	33,425
Other intangible assets		1,048	1,048	1,527
Tax assets	**34**	**371,754**	**371,754**	**155,411**
Current		42,602	42,602	22,977
Deferred		329,152	329,152	132,434
Other assets	**35**	**71,023**	**71,023**	**38,769**
Inventories		30,675	30,675	147
Others		40,348	40,348	38,622
TOTAL ASSETS		**24,973,384**	**24,973,384**	**21,462,423**

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Group for the period elapsing between 2 November and 31 December 2012. Further information is provided on this issue in note 2.

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Translation of the report and annual accounts issued in Spanish.
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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

LIABILITIES	Note	2012	2012 (*)	2011
Trading portfolio	23	**12,505**	**12,505**	**20,241**
Derivatives held for trading		12,505	12,505	20,241
Financial liabilities at amortised cost	36	**22,804,522**	**22,804,522**	**19,347,938**
Deposits from central banks		3,124,011	3,124,011	200,055
Credit institution deposits		710,701	710,701	638,408
Customer funds		18,375,193	18,375,193	17,911,611
Marketable debt securities		421,778	421,778	437,605
Other financial liabilities		172,839	172,839	160,259
Derivatives held for hedging	28	**81,193**	**81,193**	**42,536**
Insurance contract liabilities	37	**521,678**	**521,678**	**550,564**
Provisions	38	**46,574**	**46,574**	**18,026**
Retirement benefit obligations		2,467	2,467	8,742
Provisions for taxes and other contingencies		4,143	4,143	-
Provisions for contingent risks and commitments		35,939	35,939	9,284
Other provisions		4,025	4,025	-
Tax liabilities	34	**106,227**	**106,227**	**53,332**
Current		14,053	14,053	2,796
Deferred		92,174	92,174	50,536
Community projects fund	39	**4,658**	**4,658**	**917**
Other liabilities	35	**44,561**	**44,561**	**42,769**
Capital repayable on demand	40	**-**	**-**	**774**
TOTAL LIABILITIES		**23,621,918**	**23,621,918**	**20,077,097**
EQUITY				
Equity	40	**1,337,583**	**1,337,583**	**1,571,691**
Capital		656,853	656,853	485,338
Documented		656,853	656,853	485,338
Reserves		1,214,115	692,367	1,105,862
Accumulated (losses) reserves		1,222,238	700,490	1,109,355
Reserves (losses) for companies measured under the equity method		(8,123)	(8,123)	(3,493)
Less: Treasury shares		(1,288)	(1,288)	(1,289)
Result attributed to the Parent Entity		(509,268)	12,480	2,076
Less: Dividends and remuneration		(22,829)	(22,829)	(20,296)
Measurement adjustments	41	**10,835**	**10,835**	**(186,365)**
Available-for-sale financial assets		9,894	9,894	(187,633)
Cash flow hedges		941	941	1,268
Entities measured under the equity method		-	-	-
Minority interests	42	**3,048**	**3,048**	**-**
Measurement adjustments		-	-	-
Remainder		3,048	3,048	-
TOTAL EQUITY		**1,351,466**	**1,351,466**	**1,385,326**
TOTAL LIABILITIES AND EQUITY		**24,973,384**	**24,973,384**	**21,462,423**
MEMORANDUM-ITEM				
Contingent risks	45	**428,046**	**428,046**	**473,608**
Contingent commitments	46	**1,134,482**	**1,134,482**	**1,066,719**

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Group for the period elapsing between 2 November and 31 December 2012. Further information is provided on this issue in note 2.

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

	Note	2012	2012 (*)	2011
Interest and similar revenue	47	624,586	105,531	565,116
Interest and similar charges	48	282,684	45,678	288,573
Compensation for capital repayable on demand		-	-	124
INTEREST MARGIN		341,902	59,853	276,419
Return on equity instruments	49	7,577	799	9,219
Results in entities carried under the equity method	50	(11)	(55)	(464)
Fees collected	51	102,061	20,231	96,171
Fees paid	52	14,577	2,438	9,317
Results of financial operations (net)	53	7,595	1,760	4,475
Trading portfolio		861	(863)	893
Other financial instruments at fair value through profit and loss		1,523	408	(3,194)
Financial instruments not stated at fair value with changes in income statement		6,620	2,272	7,211
Other		(1,409)	(57)	(435)
Exchange differences (net)	54	477	66	1,066
Other operating revenue	55	420,741	84,047	176,921
Revenues from insurance and reinsurance policies issued		196,276	34,779	85,411
Sales and revenues from non-financial services rendered		6,348	4,481	2,310
Other operating revenues		218,117	44,787	89,200
Other operating charges	56	374,676	75,732	176,755
Expenses for insurance and reinsurance policies		132,314	24,341	87,469
Other operating expenses		238,983	48,012	89,286
Changes in inventories		3,379	3,379	-
GROSS MARGIN		491,089	88,531	377,735
Administrative expenses	57	210,645	39,679	169,642
Staff costs		127,304	24,109	103,740
Other general administrative expenses		83,341	15,570	65,902
Amortization	58	17,722	3,505	21,757
Provisions (net)	59	37,218	1,020	2,821
Financial asset impairment losses (net)	60	697,582	8,726	162,926
Credits, loans and discounts		558,228	11,693	131,973
Other financial instruments not stated at fair value with changes in income statement		139,354	(2,967)	30,953
RESULTS FROM OPERATIONS		(472,078)	35,601	20,589
Other asset impairment losses (net)	61	30,425	(387)	-
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	62	(398)	116	19,028
Difference on business combinations		-	-	-
Gain/(loss) on non-current assets held for sale not classified as discontinued operations	63	(215,458)	(24,321)	(55,446)
SURPLUS BEFORE TAXES		(718,359)	11,783	(15,829)
Corporate income tax	43	(209,091)	(697)	(17,905)
Mandatory appropriation to community projects and social funds	64	-	-	-
RESULTS FROM CONTINUING OPERATIONS		(509,268)	12,480	2,076
Gain/ loss on discontinued operations (net)		-	-	-
CONSOLIDATED SURPLUS FOR THE YEAR		(509,268)	12,480	2,076
Results attributable to minority shareholders	65	-	-	-
Result attributed to the Parent Entity	40	(509,268)	12,480	2,076

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Group for the period elapsing between 2 November and 31 December 2012. Further information is provided on this issue in note 2.

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF RECOGNISED OF INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

	2012	2012 (*)	2011
CONSOLIDATED SURPLUS FOR THE YEAR	**(509,268)**	**12,480**	**2,076**
OTHER RECOGNIZED INCOME AND EXPENSE	**190,859**	**30,997**	**(68,796)**
Available-for-sale financial assets	**265,536**	**43,245**	**(95,283)**
Measurement (losses) gains	132,802	42,550	(119,025)
Amounts transfer to the income statement	132,734	695	23,742
Cash flow hedges	**(454)**	**(193)**	**(186)**
Measurement (losses) gains	(454)	(193)	(186)
Entities measured under the equity method	**-**	**-**	**(81)**
Measurement (losses) gains	-	-	(81)
Corporate income tax	**(74,223)**	**(12,055)**	**26,754**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(318,409)**	**43,477**	**(66,720)**
Attributed to the Parent Entity	**(318,409)**	**43,477**	**(67,442)**
Attributed to minority shareholdings	**-**	**-**	**722**

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Group for the period elapsing between 2 November and 31 December 2012. Further information is provided on this issue in note 2.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €’ 000)

At 31 December 2012

		Reserves									
	Capital	Accumulated reserves (losses)	(Loss) reserve in entities carried under the equity method	Less: Treasury shares	Results for the year attributable to the parent entity	Less: Dividends and remuneration	Total capital and reserves	Measurement adjustments	Total	Minority shareholdings	Total equity
Closing balance at 31 December 2011	**485,338**	**1,109,355**	**(3,493)**	**(1,289)**	**2,076**	**(20,296)**	**1,571,691**	**(186,365)**	**1,385,326**	**-**	**1,385,326**
Adjustments due to changes in accounting standards	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**485,338**	**1,109,355**	**(3,493)**	**(1,289)**	**2,076**	**(20,296)**	**1,571,691**	**(186,365)**	**1,385,326**	**-**	**1,385,326**
Total recognized income and expenses	**-**	**-**	**-**	**-**	**(509,268)**	**-**	**(509,268)**	**190,859**	**(318,409)**	**-**	**(318,409)**
Other changes in equity											
- Share capital increases	69,889	98	-	-	-	-	69,987	-	69,987	-	69,987
- Shareholder remuneration	-	-	-	-	-	(22,829)	(22,829)	-	(22,829)	-	(22,829)
- Transactions involving treasury shares (net)	-	-	-	1	-	-	1	-	1	-	1
- Transfers among equity items	-	(13,530)	(4,690)	-	(2,076)	20,296	-	-	-	-	-
- Increase (decrease) in equity in connection with business combinations	101,626	126,315	60	-	-	-	228,001	6,341	234,342	3,048	237,390
- Discretionary appropriation to community projects and social funds	-	-	-	-	-	-	-	-	-	-	-
- Rest of equity increases (decreases)	-	-	-	-	-	-	-	-	-	-	-
Total other changes in equity	**171,515**	**112,883**	**(4,630)**	**1**	**(2,076)**	**(2,533)**	**275,160**	**6,341**	**281,501**	**3,048**	**284,549**
Closing balance at 31 December 2012	**656,853**	**1,222,238**	**(8,123)**	**(1,288)**	**(509,268)**	**(22,829)**	**1,337,583**	**10,835**	**1,348,418**	**3,048**	**1,351,466**

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

At 31 December 2011

		Reserves									
	Capital	Accumulated reserves (losses)	(Loss) reserve in entities carried under the equity method	Less: Treasury shares	Results for the year attributable to the parent entity	Less: Dividends and remuneration	Total capital and reserves	Measurement adjustments	Total	Minority shareholdings	Total equity
Closing balance at 31 December 2010	**481,509**	**1,086,115**	**7,324**	**(534)**	**60,627**	**(36,073)**	**1,598,968**	**(116,847)**	**1,482,121**	**8,829**	**1,490,950**
Adjustments due to changes in accounting standards	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance	**481,509**	**1,086,115**	**7,324**	**(534)**	**60,627**	**(36,073)**	**1,598,968**	**(116,847)**	**1,482,121**	**8,829**	**1,490,950**
Total recognized income and expenses	**-**	**-**	**-**	**-**	**2,076**	**-**	**2,076**	**(69,518)**	**(67,442)**	**722**	**(66,720)**
Other changes in equity											
- Share capital increases	3,829	28	-	-	-	-	3,857	-	3,857	-	3,857
- Shareholder remuneration	-	-	-	-	(3,838)	(20,296)	(24,134)	-	(24,134)	(772)	(24,906)
- Transactions involving treasury shares (net)	-	-	-	(755)	-	-	(755)	-	(755)	-	(755)
- Transfers among equity items	-	29,230	(10,817)	-	(54,486)	36,073	-	-	-	-	-
- Discretionary appropriation to community projects and social funds	-	-	-	-	(2,303)	-	(2,303)	-	(2,303)	-	(2,303)
- Rest of equity increases (decreases)	-	(6,018)	-	-	-	-	(6,018)	-	(6,018)	(8,779)	(14,797)
Total other changes in equity	**3,829**	**23,240**	**(10,817)**	**(755)**	**(60,627)**	**15,777**	**(29,353)**	**-**	**(29,353)**	**(9,551)**	**(38,904)**
Closing balance at 31 December 2011	**485,338**	**1,109,355**	**(3,493)**	**(1,289)**	**2,076**	**(20,296)**	**1,571,691**	**(186,365)**	**1,385,326**	**-**	**1,385,326**

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		**1,410,649**	**146,526**
Consolidated surplus for the year		**(509,268)**	**2,076**
Adjustments made to obtain cash flows from operating activities		**780,004**	**224,196**
Amortization	**58**	17,722	21,757
Other adjustments		762,282	202,439
Net increase/ decrease in operating assets		**953,328**	**(190,911)**
Trading portfolio		(16,255)	(95,308)
Other financial assets at fair value through profit and loss		9,955	1,916
Available-for-sale financial assets		984,111	(406,967)
Credits, loans and discounts		100,476	501,652
Other operating assets		(124,959)	(192,204)
Net increase/ decrease in operating liabilities		**184,338**	**111,827**
Trading portfolio		(9,062)	(1,270)
Financial liabilities at amortized cost		174,355	(90,870)
Other operating liabilities		19,045	203,967
Corporate income tax collection/(paid)		**2,247**	**(662)**
CASH FLOWS FROM INVESTING ACTIVITIES		**(1,286,853)**	**(117,319)**
Payments		**(1,548,606)**	**(177,472)**
Property, plant and equipment	**32**	(22,522)	(43,732)
Intangible assets		-	(18,592)
Shareholdings	**30**	(83)	(2,187)
Non-current assets and associated liabilities available-for-sale		-	(94,732)
Held to maturity investments		(1,526,001)	(18,229)
Collections		**188,157**	**60,153**
Property, plant and equipment		15,852	4,067
Intangible assets		462	-
Shareholdings	**30**	1,114	21,083
Non-current assets and associated liabilities available-for-sale		37,664	19,699
Held-to-maturity investment portfolio		133,065	15,304
Cash and cash equivalents acquired in business combinations		**73,596**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES		**46,385**	**(41,038)**
Payments		**(23,603)**	**(42,113)**
Dividends		(22,829)	(20,179)
Amortization of treasury shares	**40**	-	(4,079)
Purchase of treasury shares		-	(755)
Other payments related to financing activities		(774)	(17,100)

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011
(Expressed in €' 000)

	Note	2012	2011
Collections		**69,988**	**1,075**
Issue of treasury shares		69,987	1,075
Disposal of own equity instruments		1	-
EFFECT OF EXCHANGE RATE FLUCTUATIONS		**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**170,181**	**(11,831)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**184,647**	**196,478**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**354,828**	**184,647**
MEMORANDUM-ITEM			
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Cash on hand		81,442	79,541
Cash equivalent balances at central banks		273,386	105,106
Other financial assets		-	-
Less: Bank overprojects repayable on demand		-	-
Total cash and cash equivalents at end of the year	**22**	**354,828**	**184,647**

CAJA LABORAL POPULAR COOP. DE CRÉDITO

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

1. Nature of the Entity

Caja Laboral Popular Coop. de Crédito (hereinafter, indistinctly, the Entity, the Parent Entity or Caja Laboral), with registered office in Mondragón (Guipuzcoa), 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. The Entity meets the requirements for classification as a 'qualified cooperative' (*cooperativa calificada*).

1.1 Merger between Caja Laboral and Iparkutxa

On 28 May 2012, the Governing Councils of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito, aware of the implications of the prevailing economic and financial market environment for their respective businesses, the future needs of the regions in which they are present and following in-depth analysis and reflection, true to the principles and spirit that inspire and guide cooperative or mutual banking, decided on a merger structure that would give rise to the incorporation of a new cooperative encompassing their respective assets and liabilities as the best way to create the foundations for tackling the challenges and opportunities implicit in operating in the new financial paradigm. Both of the merging credit cooperatives shared similar strategic orientations, management models and risk profiles, as well as noteworthy track records. Both therefore view this process as an opportunity for unlocking the value implicit in their efficient, responsible and socially committed banking management models and for playing a leading role in shaping the emerging new financial service landscape in Spain.

The contents of the Project Terms of Merger comply with the provisions of Law 13/1989, on Credit Cooperatives, Royal Decree 84/1993, enacting the Credit Cooperatives Regulations, article 63 of the Cooperatives Act (Law 27/1999), article 77 of Law 4/1993 on Basque Cooperatives, among other applicable legal provisions.

The merger took the form of the dissolution without liquidation of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito and the transfer *en bloc* of their respective assets, liabilities and owners to the New Credit Cooperative resulting from the merger, the latter acquiring, by universal succession, the rights and obligations of the two entities so dissolved.

The New Credit Cooperative intends to remain unwaveringly committed to the cooperative model, local ties and roots and firmly devoted to the economic, social and institutional development that guided the former entities in their respective natural markets, all with the overriding objective of gaining market share in their home markets and leadership in the credit cooperative segment in the Basque and Navarra regions where cooperative banking is entrenched in and much appreciated by society. It will similarly maintain its strategic focus on the industrial and agricultural sectors.

The New Entity's registered office is located in Mondragón (Guipuzcoa); it will also have a secondary head office for business purposes in Bilbao.

On 28 June 2012, the Governing Councils of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito approved the Strategic Plan for integrating the two entities. The Project Terms of Merger by means of the creation of a New Credit Cooperative, the new entity's bylaws and the appointments to its Governing Council were approved at General Assemblies held by each entity on 30 June 2012.

On 29 October 2012, the Spanish Ministry for the Economy, on the basis of reports recommending the merger issued by the pertinent internal bodies of the Bank of Spain, Comisión Nacional del Mercado de Valores (Spain's securities market regulator, hereinafter, the CNMV for its acronym in Spanish), the Basque regional government, SEPBLAC (Spain's money laundering prevention executive) and the CNC (Spain's anti-trust authority), resolved to approve the merger by creation of a New Credit Cooperative, which approval encompassed the new entity's bylaws, investment and auxiliary services program and the planned integration process, as provided for in article 2 of Royal Decree-Law 2/2012 (of 3 February 2012) and article 2 of Royal Decree-Law 8/2012 (of 11 May 2012), repealed by Law 8/2012 (of 30 October 2012).

The deeds for the merger by creation and corporate resolutions were publicly notarised on 31 October 2012. As a result of the foregoing, Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito merged by means of the creation of a New Credit Cooperative called "Caja Laboral Popular Coop. de Crédito", whose corporate purpose, registered office, capital and other particulars are enshrined in its bylaws. The New Entity is governed by the Credit Cooperatives Act (Law 13/1989 of 26 May 1999), among other applicable legal provisions.

The New Credit Cooperative's minimum capital requirement of €10 million was paid up in full by means of its succession to all of the assets, rights and obligations of the merged entities. The New Caja Laboral Popular Coop. de Crédito personally and individually succeeds the merged entities in respect of the rights and obligations deriving from the legal contracts arising from the assets and liabilities transferred to it.

Under the terms of the merger, the two merged credit cooperatives have been dissolved and extinguished without going into liquidation.

The Project Terms of Merger stipulated that the date of inscription in the Companies Register of Guipuzcoa would be the date from which the operations of the merged entities would be deemed to have been performed by the New Credit Cooperative for accounting purposes. Against this backdrop, having met all the legal deadlines and obtained all pertinent regulatory authorisations, the merger by creation was filed with the Companies Register of Vizcaya on 2 November 2012.

The following considerations were made in determining the size of the contribution by the merged entities to the new entity's share capital:

- The par value of each contribution to the New Entity's share capital was set at €100 in the case of Caja Laboral Popular Coop. de Crédito and €1 in the case of Ipar Kutxa Rural, S. Coop. de Crédito.

- The members of Caja Laboral Coop. de Crédito were entitled to obtain one contribution in the share capital of the New Entity with a unit par value of €100 for every contribution held in Caja Laboral Coop. de Crédito at the time of the merger. The members of Ipar Kutxa Rural, S. Coop. de Crédito were entitled to obtain 6.11 contributions in the share capital of the New Entity, with a unit par value of €100, for every €100 contribution held in Ipar Kutxa Rural, S. Coop. de Crédito at the time of the merger.

- The share capital of the New Entity following the merger is the result of multiplying the number of contributions allocated in the New Entity to each member of Caja Laboral Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito by the par value of the New Entity's contributions, i.e., €100.

1.2 Business combination

As indicated in section 1.1 above, Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito were extinguished on 1 November 2012 and a New Credit Cooperative was created to which all of the assets and liabilities of the dissolved entities were transferred on 2 November 2012. This transaction structure is treated under the International Financial Reporting Standards adopted by the European Union (IFRS-EU) as a business combination in which the former Caja Laboral Popular Coop. de Crédito is identified as the acquirer and Ipar Kutxa Rural, S.Coop. de Crédito as the acquiree for accounting and financial purposes. As a result, in keeping with IFRS-EU, the accompanying consolidated financial statements are presented as a continuation of the activities of the acquiring Group Entity.

Ipar Kutxa Rural S. Coop de Crédito was incorporated in 1965 and its registered office was located in Bilbao. This entity's corporate purpose was to carry out all of the asset and liability transactions, legal acts, contracts and services that are typical of banks and other credit entities or related directly or indirectly thereto that are permitted or not prohibited under prevailing sector regulations, with a priority strategic focus on the financial needs of the rural environment and its stakeholders.

The merger is the result of a business undertaking, cooperative alliance and strategic opportunity to reinforce the current competitive positioning of both entities as financial players in the Basque and Navarra regions by means of three complementary initiatives: (i) synergy generation, (ii) a combined healthy position from which to tackle the need to recognise impairment charges on customer loans, non-current assets held for sale and inventories, and (iii) stronger combined core capital. The merger also preserves and extends the two entities' cooperative structure, local ties and roots and commitment to economic development in their respective spheres of influence.

As stipulated in applicable accounting rules, in a business combination between financial institutions, the various assets, liabilities and contingent liabilities of the acquiree, in this instance identified as Ipar Kutxa Rural S. Coop. de Crédito and its subsidiaries, need to be restated so that, as a general rule, they are recognised in the merged group's consolidated financial statements at fair value.

(Expressed in €' 000)

The main reported financial indicators (carrying amounts) for the Ipar Kutxa Rural, S. Coop. de Crédito Group (acquiree) as of 1 November 2012 and the corresponding fair values are shown below:

	Carrying amount (unaudited)	Adjustments made to estimate fair value	Fair value after restatement
Cash on hand and on deposit at central banks	73,596	-	73,596
Trading portfolio (assets)	294	-	294
Available-for-sale financial assets	1,065,993	(63)	1,065,930
Credit investments	2,279,073	(88,534)	2,190,539
Non-current assets held for sale	61,049	(1,409)	59,640
Shareholdings	-	-	-
Property and equipment	72,938	18,384	91,322
Intangible assets	93	-	93
Tax assets	16,453	26,064	42,517
Other assets	37,075	-	37,075
Total assets	3,606,564	(45,558)	3,561,006
Trading portfolio (liability)	1,326	-	1,326
Financial liabilities at amortised cost	3,307,174	(24,945)	3,282,229
Provisions	265	452	717
Tax liabilities	13,626	12,131	25,757
Community projects fund	3,773	-	3,773
Other liabilities	9,814	-	9,814
Capital repayable on demand	3,060	(3,060)	-
Total liabilities	3,339,038	(15,422)	3,323,616
Total assets	**267,526**	**(30,136)**	**237,390**

The following assumptions and methodologies were used to restate the assets and liabilities of the Ipar Kutxa Rural, S. Coop. de Crédito Group to the fair values shown in the table above:

- Remeasurement of the properties included under "Property, plant and equipment" by means of appraisals performed by independent experts (duly registered with the Bank of Spain under Ministerial Order OM ECO 805/2003) in October 2012.

- Remeasurement to fair value of the portfolio of Credit investments as of 1 November 2012, on the basis of reports issued by independent third parties which based their fair value conclusions on assumptions regarding non-payment, recovery rates for non-performing and written-off loans and expected loss, exposure and severity calculations for the portfolio segmented by loan category (developer, land, housing, consumer loans, etc.).

- Measurement of own issues placed in wholesale markets factoring in their characteristics, the interest rate curve at the benchmark date and credit spreads based on market conditions and the terms of the issue.

- In addition, the amount carried as Capital repayable on demand was reclassified to Reserves as it formed part of the consideration transferred by Ipar Kutxa Rural, S. Coop. de Crédito to the New Entity.

- The tax effect was determined using a tax rate of 28% across the board.

(Expressed in €' 000)

The following table sums up the fair values of the assets acquired and the liabilities assumed from the Ipar Kutxa Rural, S. Coop. de Crédito Group (acquiree) and the consideration delivered on 2 November 2012, the date of the business combination:

Consideration as of 2 November 2012

Cash	-
Equity instruments	101,626
Reserves	126,375
Valuation adjustments	6,341
Minority interests	3,048
Contingent consideration	-
Total consideration given	**237,390**
Indemnification asset	-
Fair value of the equity interest in Ipar Kutxa Rural, S. Coop. de Crédito held before the business combination	-
Total consideration	**237,390**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash on hand and on deposit at central banks	73,596
Trading portfolio (assets)	294
Available-for-sale financial assets (note 25)	1,065,930
Credit investments (note 26)	2,190,539
Non-current assets held for sale (note 29)	59,640
Shareholdings	-
Property and equipment (note 32)	91,322
Intangible assets	93
Tax assets (note 34)	42,517
Other assets	37,075
Trading portfolio (liability)	(1,326)
Financial liabilities at amortised cost	(3,282,229)
Provisions (note 38)	(717)
Tax liabilities (note 34)	(25,757)
Community projects fund (note 39)	(3,773)
Other liabilities	(9,814)
Total identifiable net assets	**237,390**
Minority interests	-
Goodwill	-
Total	**237,390**

The acquisition costs were charged under “Administrative expenses” in the 2012 consolidated income statement.

The following factors were not contemplated in arriving at the above fair value estimates:

- The potential synergies that may arise from the merger.
- Potential unrealised gains on properties earmarked for community work.

As stipulated in prevailing accounting rules, there is a maximum period of one year (the measurement period) from the date of the business combination (2 November 2012) during which the New Entity may restate the amounts recognised in respect of the consolidated balances contributed and presented under "Credit investments", "Non-current assets held for sale" and "Trading portfolio", which are deemed provisional, to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date in the accompanying consolidated financial statements. Against this backdrop, the fair value adjustments recognised in the accompanying consolidated financial statements have been recorded on a provisional basis, based on the best estimate, as of the date of the business combination, of the contractual flows that are expected to be collected from these assets, subject to completion of in-depth analysis based on the financial situation of the creditors and the estimated realisation value of certain assets. After the measurement period ends, the acquirer will revise the initial accounting to correct any errors.

The fair value of the total consideration transferred was estimated at €237,390 thousand, in keeping with the above considerations regarding the measurement of the assets and liabilities of the Ipar Kutxa Rural, S. Coop. de Crédito Group as a whole.

In addition, because the consideration received in the business combination from the Ipar Kutxa, S. Coop. de Crédito Group coincides with the fair value of the net assets contributed by it, the business combination did not give rise to any goodwill.

No contingent liabilities have been recognised in connection with the merger with the Ipar Kutxa Rural, S. Coop de Crédito Group, which is why no related indemnification assets have been recognised.

The fixed-income operations and IT systems, the open position vis-à-vis the ECB, the covered bonds issued and other interbank positions of the former Ipar Kutxa were transferred to the New Entity as of the business combination date. In addition, a large part of its workforce transferred to the New Entity as members as of this same date, from which time their service costs have been accrued in the New Group's consolidated income statement. In light of the foregoing, the rest of the assets and liabilities of the former Ipar Kutxa Group generated income from 2 November 2012 (which is reflected in "Interest and similar revenue", "Return on equity instruments", "Fees collected", "Results of financial operations", "Exchange differences (net)", "Other operating revenue" and gains on asset sales) of €15,042 thousand that has been included in the consolidated income statement of the New Group. The Ipar Kutxa Rural, S. Coop. de Crédito contributed a net loss of €3,144 thousand during this same stub period.

Had the Ipar Kutxa Rural, S. Coop. de Crédito Group been consolidated from 1 January 2012, the pro forma consolidated income statement of the New Group would show income (comprising "Interest and similar revenue", "Return on equity instruments", "Fees collected", "Results of financial operations", "Exchange differences (net)", "Other operating revenue" and gains on asset sales) of €1,295,691 thousand and a net loss of €508,327 thousand.

1.3 New 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 perform all manner of asset and liability transactions and provide all manner of services permitted of credit institutions, including those related to the promotion and enhanced delivery of its cooperative vocation, paying priority attention to the financial needs of its members and respecting the legal limits on asset transactions with 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.

In relation to the regulations governing the Inter-Coop Central Fund (hereinafter, FCI for its acronym in Spanish), the Parent Entity, in keeping with the agreements reached at the III Cooperative Congress of December 1991, amended by resolution of the Governing Council on 27 March 2002 as to its materialisation, contributes annually a sum equivalent to 20% of its prior-year surplus before tax, less interest on capital and the grants corresponding to the contribution to the FCI, to Mondragón Inversiones Sociedad de Promoción de Empresas, S. Coop. (hereinafter, Mondragón Inversiones) and Fundación Mondragón. The contributions by the Entity are structured as follows:

a) By way of a grant, the Entity contributes an annual amount equivalent to 14% of its net surplus, which is deducted from the Inter-Coop Company Fund.

b) The remainder, to make up the 20% contribution to the FCI, is earmarked to a credit line in favour of the FCI, which takes the form of loans or capital contributions to the entities comprising Corporación Mondragón. If these sums have to be later provisioned by the Entity for insolvency risk, they are deducted from the amount payable in the year in which the impairment provision has to be made.

In keeping with the Entity's bylaws, the annual contribution to the FCI is channelled by means of appropriation of the surplus for the year (note 4) through the Inter-Coop Company Fund. The undrawn limit on the contributions taking the form of direct investment stands at €54,237k (year-end 2011: €54,487k).

Caja Laboral is the Parent Entity of a Group of Investee Entities that comprise Caja Laboral Popular and its Investee Entities (hereinafter, the 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.

At 31 December 2012, the total assets and equity of the Parent Entity represented 97.56% and 98.11%, respectively, of total Group assets and equity (year-end 2011: 97.10% and 100.20%, respectively).

Below is a summary of the individual balance sheet, income statement, statement of recognised income and expense, statement of changes in equity and statement of cash flows of the Parent Entity for the years ended 31 December 2012 and 2011, prepared in accordance with the accountings standards and measurement criteria that apply to its individual annual accounts.

(Expressed in €' 000)

a) Individual balance sheets at 31 December 2012 and 2011.

ASSETS	2012	2012 (*)	2011
Cash on hand and on deposit at central banks	354,828	354,828	184,647
Trading portfolio	135,094	135,094	118,547
Other financial assets at fair value through profit and loss	9,910	9,910	20,986
Available-for-sale financial assets	3,650,239	3,650,239	3,466,213
Credits, loans and discounts	16,802,634	16,802,634	15,364,689
Held to maturity investments	1,746,737	1,746,737	339,906
Derivatives held for hedging	447,458	447,458	359,375
Non-current assets for sale	348,556	348,556	355,793
Shareholdings	114,703	114,703	126,464
Property, plant and equipment	403,675	403,675	355,217
Intangible assets	1	1	90
Tax assets	327,594	327,594	129,369
Other assets	22,260	22,260	18,657
Total assets	24,363,689	24,363,689	20,839,953

LIABILITIES AND EQUITY	2012	2012 (*)	2011
Trading portfolio	12,505	12,505	20,241
Financial liabilities at amortised cost	22,784,056	22,784,056	19,310,556
Derivatives held for hedging	81,193	81,193	42,536
Provisions	49,112	49,112	18,045
Tax liabilities	79,673	79,673	40,896
Community projects fund	4,658	4,658	917
Other liabilities	26,552	26,552	17,924
Capital repayable on demand	-	-	774
Total liabilities	23,037,749	23,037,749	19,451,889
Equity:	1,318,698	1,318,698	1,570,994
Capital	656,853	656,853	485,338
Reserves	1,212,517	661,845	1,085,656
Surplus for the year	(528,585)	22,087	19,407
Less: Dividends and remuneration	(22,087)	(22,087)	(19,407)
Measurement adjustments	7,242	7,242	(182,930)
Total equity	1,325,940	1,325,940	1,388,064
Total liabilities and equity	24,363,689	24,363,689	20,839,953
MEMORANDUM-ITEM			
Contingent risks	442,176	442,176	480,437
Contingent commitments	1,145,347	1,145,347	1,066,719

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Entity for the period elapsing between 2 November and 31 December 2012.

(Expressed in €' 000)

b) Individual income statements for the years ended 31 December 2012 and 2011:

	2012	2012 (*)	2011
Interest and similar revenue	601,222	101,979	545,408
Interest and similar charges	271,711	36,924	286,673
Return on equity instruments	-	-	124
Interest Margin	329,511	65,055	258,611
Return on equity instruments	10,337	799	45,325
Fees collected	95,422	17,613	97,087
Fees paid	7,816	1,451	7,489
Results of financial operations (net)	5,508	1,366	5,545
Exchange differences (net)	477	66	1,066
Other operating revenues	15,680	3,396	17,085
Other operating charges	30,557	5,299	12,705
Gross margin	418,562	81,545	404,525
Administration expenses	166,287	30,473	164,395
Amortization	17,574	3,453	21,713
Provisions (net)	37,218	1,020	2,821
Financial asset impairment losses (net)	704,202	15,346	162,926
Results from operations	(506,719)	31,253	52,670
Other asset impairment losses (net)	41,227	1,100	25
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	118	122	2,849
Gain/(loss) on non-current assets held for sale not classified as discontinued operations	(199,073)	(7,936)	(55,446)
Surplus before taxes	(746,901)	22,339	48
Corporate income tax	(218,316)	252	(19,359)
Mandatory appropriation to community projects and social funds	-	-	-
Results from continuing operations	(528,585)	22,087	19,407
Gain/ loss on discontinued operations (net)	-	-	-
Surplus for the year	(528,585)	22,087	19,407

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Entity for the period elapsing between 2 November and 31 December 2012.

(Expressed in €' 000)

c) Individual statement of recognised income and expenses relating to the years ended 31 December 2012 and 2011:

	2012	2012 (*)	2011
SURPLUS FOR THE YEAR	**(528,585)**	**22,087**	**19,407**
OTHER RECOGNIZED INCOME AND EXPENSE	**183,831**	**28,083**	**(68,311)**
Available-for-sale financial assets	**255,774**	**39,197**	**(94,690)**
Measurement gains / (losses)	123,302	38,516	(119,581)
Amounts transfer to the income statement	132,472	681	24,891
Cash flow hedges	**(454)**	**(193)**	**(186)**
Measurement gains / (losses)	(454)	(193)	(186)
Corporate income tax	**(71,489)**	**(10,921)**	**26,565**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(344,754)**	**50,170**	**(48,904)**

(*) For the reader's information, this column provides the corresponding disclosures for the equivalent statement of the New Entity for the period elapsing between 2 November and 31 December 2012.

d) Statements of total changes in equity for the years ended 31 December 2012 and 2011:

Balance at 31 December 2012

	Capital and Reserves	Measurement adjustments	Total equity
Closing balance at 31 December 2011	**1,570,994**	**(182,930)**	**1,388,064**
Adjustments due to changes in accounting standards	-	-	-
Adjustments due to errors	-	-	-
Adjusted opening balance	**1,570,994**	**(182,930)**	**1,388,064**
Total recognized income and expenses	**(528,585)**	**183,831**	**(344,754)**
Other changes in equity			
- Share capital increases	69,987	-	69,987
- Shareholder remuneration	(22,087)	-	(22,087)
- Transfers among equity items	-	-	-
- Increase (decrease) in equity in connection with business combinations	228,389	6,341	234,730
- Discretionary appropriation to community projects and social funds	-	-	-
- Rest of equity increases (decreases)	-	-	-
Total other changes in equity	**276,289**	**6,341**	**282,630**
Closing balance at 31 December 2012	**1,318,698**	**7,242**	**1,325,940**

(Expressed in €' 000)

Balance at 31 December 2011

	Capital and Reserves	Measurement adjustments	Total equity
Closing balance at 31 December 2010	**1,573,278**	**(114,619)**	**1,458,659**
Adjustments due to changes in accounting standards	-	-	-
Adjustments due to errors	-	-	-
Adjusted opening balance	**1,573,278**	**(114,619)**	**1,458,659**
Total recognized income and expenses	**19,407**	**(68,311)**	**(48,904)**
Other changes in equity			
- Share capital increases	3,857	-	3,857
- Shareholder remuneration	(23,245)	-	(23,245)
- Transfers among equity items	-	-	-
- Discretionary appropriation to community projects and social funds	(2,303)	-	(2,303)
- Rest of equity increases (decreases)	-	-	-
Total other changes in equity	**(21,691)**	**-**	**(21,691)**
Closing balance at 31 December 2011	**1,570,994**	**(182,930)**	**1,388,064**

e) Individual cash flow statements for the years ended 31 December 2012 and 2011:

	2012	2011
Net cash flows from operating activities:	1,421,195	151,803
Surplus for the year	(528,585)	19,407
Adjustments made to obtain cash flows from operating activities	780,860	240,082
Net increase/ decrease in operating assets	937,236	(44,213)
Net increase/ decrease in operating liabilities	229,437	(62,811)
Corporate income tax collection/(paid)	2,247	(662)
Net cash flows from investing activities:	(1,298,140)	(138,919)
Payments	(1,578,268)	(181,974)
Collections	206,532	43,055
Cash and cash equivalents acquired in business combinations	73,596	-
Net cash flows from financing activities	47,126	(24,715)
Effect of exchange rate fluctuations	-	-
Net increase/ decrease in cash and cash equivalents	170,181	(11,831)
Cash and cash equivalents at beginning of the year	184,647	196,478
Cash and cash equivalents at end of the year	354,828	184,647

2. Basis of presentation of the consolidated financial statements

2.1 Fair presentation

The Group's annual consolidated financial statements have been prepared in conformity with the International Financial Reporting Standards adopted by the European Union as of 31 December 2012 (IFRS-EU) and Bank of Spain Circular 4/2004, of 22 December, and subsequent amendments, which together constitute the enactment and adaptation of IFRS-EU for the Spanish banking sector.

In these annual accounts the abbreviations IAS and IFRS are used to refer International Accounting Standards and International Financial Reporting Standards, respectively, and the abbreviations IFRIC and SIC to refer to the Interpretations of the International Financial Reporting Standards Interpretations Committee and the previous, Standing Interpretations Committee respectively, all of these 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 2012 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 2012.

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 2012 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 Entity of the Group.

The Group's consolidated financial statements for 2012 were authorised for issue by the Directors of the Group's Parent Entity at a Governing Council meeting held on 26 March 2013. They are expected to be approved at the Parent Entity's General Assembly without 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, Multigroup entities and associates are investee companies.

2.2.1) Dependent Entities

"Dependent entities" shall be considered as those over which the Entity has the capacity to exercise control; this capacity being demonstrated, generally although not only, by the ownership, directly or indirectly, of 50% or more of the voting rights in the participated entities or, although this percentage is less or nil, if other circumstances or agreements exist that grant control to the Entity.

In line with the content of IAS 27, control is considered as the power to direct the financial and operating policies of an entity, with the aim of obtaining benefits from its activities.

Information related to holdings in Dependent Entities at 31 December 2012 and 2011 is shown in Appendix I.

The annual accounts of the dependent entities are consolidated with the Entity applying the full consolidation method as is defined in IAS 27. 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 (see Note 42).
- The consolidated results for the year, are presented under the heading "Results attributed to minority shareholders" in the consolidated income statement (see Note 42).

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 Entity has included through full consolidation the securitised funds "I.M. Caja Laboral 1, F.T.A.", "I.M. Caja Laboral 2, F.T.A." and "I.M. Caja Laboral Empresas 1, F.T.A.", entities established for the securitisation of mortgage loans and the later issue of securitisation bonds.

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 the liabilities and contingent liabilities assumed in a business combination will be valued initially at their fair value on the date of acquisition. 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.

The costs related to the acquisition are recognised as expenses in the financial year in which these 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. Later changes in the fair value of the contingent consideration that is considered as an asset or liability are recognised in the results in accordance with IAS 39 or as a change in net 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-dominant participation 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.

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 revalued 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 – Multigroup Entities

A joint venture is a contractual agreement whereby two or more entities, denominated participants, undertake an economic activity that is submitted to joint control, that is, a contractual agreement to share the power to manage the financial policies and operations of an entity, or other economic activity, with the aim of benefiting from its operations, and in which the unanimous consent of all the participants is required to make strategic decisions both of a financial as well as operative nature.

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 has been applied to consolidate the annual accounts of Multigroup entities. This decision has been duly reported to the Bank of Spain.

The required disclosures regarding the Group's investments in jointly controlled entities at year-end 2012 and 2011 are provided in Appendix I.

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, at 31 December 2012 and 2011 the Group has holdings of more than 20% in the capital of certain companies, which have not been classified as Associated Entities, since the Group considers that it does not possess significant influence in these companies because a firm commitment exists for the acquisition of these holdings by Mondragón Inversiones at a fixed price. The carrying amount of these participations at 31 December 2012 and 2011 amount to €13,377k and €13,630k, respectively.

The relevant information of holdings in Associated Entities at 31 December 2012 and 2011 are shown in Appendix I.

Because the accounting principles and norms and the valuation criterias applied in the preparation of the consolidated annual accounts of the Group for the years 2011 and 2010 may differ from those applied in some of the Dependent, Multigroup and Associated Entities integrated into these, 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 2012 and 2011, 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 2012 and 2011, 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 that 5% of the capital or voting rights of any credit entity included in the Group.

2.3 Comparative information

The information drawn up for financial reporting purposes under IFRS-EU corresponds to the year ended 31 December 2012. Comparable figures are provided for 2011 in all instances.

As indicated in note 1.2 above, Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito were extinguished on 2 November 2012 and a new credit cooperative called Caja Laboral Popular Coop. de Crédito was created to which all of the assets and liabilities of the dissolved entities were transferred.

Prevailing applicable accounting rules prescribed that this transaction be treated as a business combination in which Caja Laboral Popular Coop. de Crédito is identified as the acquirer and Ipar Kutxa Rural, S.Coop. de Crédito as the acquiree or transferor, to which end all of the assets and liabilities of the Ipar Kutxa Rural, S. Coop de Crédito Group were transferred at their fair values. As a result, in keeping with IFRS-EU, the accompanying consolidated financial statements are presented as a continuation of the activities of the acquiring Group Entity, to which end the comparative information for the year prior to the business combination (year ended 31 December 2011) relates only to the former Caja Laboral Popular Coop. de Crédito Group. These considerations should be factored in by the reader when comparing the figures presented in the various financial statements and accompanying notes comprising the consolidated financial statements for 2012.

2.4 Important information regarding the legal structure of the New Entity

As indicated in note 1 above, Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito merged on 2 November 2012. The merging entities were dissolved without going into liquidation and they transferred *en bloc* their respective assets, liabilities and members to a new credit cooperative resulting from the merger, which acquired, by universal succession, the rights and obligations of the two entities so dissolved. In addition, the Project Terms of Merger between the two cooperatives stipulated that the date of inscription of the merger deeds in the Companies Register of Guipuzcoa would be the date from which the operations of the merged entities would be deemed to have been performed by the New Credit Cooperative for accounting purposes. This milestone took place on 2 November 2012.

Against the backdrop of the merger and in addition to the disclosures required under IFRS-EU that are included in the accompanying consolidated annual financial statements, the Directors of Caja Laboral Popular Coop. de Crédito determined that it was of relevance to the reader to disclose the key financial reporting metrics including the combined earnings performance since the new Credit Cooperative Group was incorporated, i.e., from 2 November until 31 December 2012. Based on the foregoing, the Directors have included this financial information in this note and added a column to the consolidated balance sheet, income statement and statement of recognised income and expense presented in these consolidated annual financial statements purely for information purposes and based on their belief that this information is important for the following reasons:

- It presents the financial reality of the New Credit Cooperative Group from the start of operations for all corporate and tax purposes;

- The individual result of Caja Laboral for that period is the figure used to determine the distribution of profits of the New Credit Cooperative; and

- It provides information for the period from which (i) the former cooperatives' management models are jointly monetised and (ii) the results of the business plan included in the New Entity's Strategic Integration Plan begin to materialise.

Further, the Directors of Caja Laboral Coop. de Crédito believe it is relevant to highlight the following exceptional and non-recurring developments during the first 10 months of 2012 that had a material impact on the surplus recognised in the accompanying consolidated annual financial statements:

1. The Group has taken a conservative approach to the impairment charges required on its loan book and foreclosed assets in light of applicable regulations, particularly with respect to real estate loans and foreclosed assets, with an adverse impact on the estimated recoverable amounts of the assets pledged to secure these transactions. This is the reason for the high volume of specific net provisions for the impairment of real estate loans and assets recognised in 2012, which amounted to €452,000k and €203,890k, respectively. In line with the foregoing, and using utterly conservative criteria, the Group decided to recognise additional net impairment provisions in respect of customer loans, debt instruments and contingent liabilities, in keeping with the criteria outlined in note 13.h), totalling €113,297k, implying a coverage ratio for these asset classes at 31 December 2012 that is significantly above the sector average.

2. Considering the current state of the financial markets and the prolonged decline in the prices of listed assets since the start of the financial crisis, the Group's management has retested, again using utterly conservative criteria, the Group's portfolio of available-for-sale assets, recognising impairment losses on these assets of €139,354k as a result in the accompanying consolidated income statement.

3. Management additionally valued the fair value of the Group's main offices and branches using independent expert appraisals, as a result of which it recognised impairment losses on certain items of property and equipment totalling €30,812k.

(Expressed in €' 000)

The main consolidated income statement headings for the New Entity Group for the period between 2 November and 31 December 2012 are shown below following the same format as the rest of the notes to the consolidated financial statements in reference to the 2012 consolidated income statement.

	2012
Deposits at central banks	159
Deposits at credit institutions	1,628
Money market transactions	531
Customer loans	66,278
Debt securities	31,850
Doubtful assets	807
Financial income from insurance activities	4,045
Rectification of revenues owing to hedging operations	(130)
Other interest	363
Interest and similar revenue	105,531

	2012
Deposits from central banks	2,382
Credit institution deposits	802
Money market transactions	2
Customer funds	51,611
Marketable debt securities	234
Rectification of expenses owing to hedging operations	(18,141)
Financial expense from insurance activities	8,788
Other interest	-
Cost of interest of retirement benefit obligations	-
Interest and similar charges	45,678

	2012
Equity instruments:	799
Shares	799
Return on equity instruments	799

Associates	(55)
Jointly controlled entities	-
Results in entities carried under the equity method	(55)

(Expressed in €' 000)

	2012
For contingent exposures	1,008
For contingent commitments	193
For currency and foreign bank notes exchange	26
For collection and payment services	9,342
For securities services:	988
Underwriting and placement of securities	22
Purchase-sale of securities	105
Administration and custody	711
Asset management	150
For marketing of non-banking financial products:	6,094
Investment funds	2,796
Pension funds	2,408
Insurance	890
Other	-
Other fees and commissions	2,580
Fees collected	20,231

	2012
Brokerage in asset and liability transactions	10
Fees assigned to other correspondent entities	1,115
For collection or return of bills	47
For other items	1,068
Fees paid on securities transactions	248
With market intermediaries	234
Other	14
Other fees and commissions	1,065
Fees paid	2,438

	2012
Trading portfolio	(863)
Other financial assets at fair value through profit or loss	408
Available-for-sale financial assets	2,272
Hedging derivatives	1,218
Other	(1,275)
Results of financial operations (net)	1,760
Gains	98,186
Losses	(96,426)
Results of financial operations (net)	1,760

	2012
Gains	46,500
Losses	(46,434)
Exchange differences (net)	66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

	2012
Revenue from insurance and reinsurance policies issued	34,779
Sales and revenue from the non-financial services rendered	4,481
Other operating revenue	44,787
Financial fees offsetting costs	833
Revenue from other operating leases (net)	939
Change in inventories of real estate assets	42,218
Other	797
Other operating revenues	84,047

	2012
Expenses for insurance and reinsurance	24,341
Other operating expenses	48,012
Contribution to the Deposit Guarantee Fund	4,361
Purchases and expenses related to real estate assets	42,713
Other	938
Changes in inventories	3,379
Other operating revenues	75,732

	2012
Salaries and bonuses paid to serving employees	22,210
Social security contributions	1,608
Severance payments	-
Staff training expenses	158
Other staff costs	133
Staff costs	24,109

	2012
For buildings, installations and materials:	3,665
Rentals	1,164
Maintenance of fixed assets	1,581
Lighting, water and heating	600
Forms and office materials	320
Data processing	1,071
Communications	1,076
Advertising and publicity	861
Legal costs and lawyers' fees	491
Technical reports	4,482
Surveillance and transfer of funds services	387
Insurance and self-insurance premiums	27
For governing and control bodies	12
Entertainment and staff travel expenses	425
Association membership fees	102
Administrative services subcontracted	990
Rates and taxes	352
Other expenses	1,629
Other general administrative expenses	15,570

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

	2012
Property, plant and equipment	3,502
Property, plant and equipment	3,437
For own use	2,679
Assigned under operating leases	758
Investment properties	65
Intangible assets	3
Depreciation and amortization	3,505

	2012
Allocations to pension funds and similar obligations:	781
Early retirement	781
Provisions for contingent exposures and commitments:	(3,904)
Contingent exposures	(3,904)
Provision for taxes	4,143
Provisions (net)	1,020

	2012
Credit investments	11,693
Loans	11,693
Other financial instruments not designated at fair value through profit and loss	(2,967)
Available-for-sale financial assets	(2,967)
Debt securities	(4,145)
Equity instruments	1,178
Financial asset impairment losses (net)	8,726

	2012
Other assets	(387)
Inventories	(387)
Other asset impairment losses (net)	(387)

	2012
Net gains/(losses) on the sale of property, plant and equipment (net)	122
Other items	(6)
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	116

	2012
Net gains/(losses) on the sale of non-current assets held for sale	(17,937)
Impairment losses on non-current assets held for sale	(6,384)
Gain/(loss) on non-current assets held for sale not classified as discontinued operations	(24,321)

3. Changes and errors in accounting policies and estimates

The information contained in these consolidated annual accounts is the responsibility of the Directors of the Parent Entity. 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 Entity and Investees and ratified by the Directors. These estimates relate to:

- Impairment losses on certain assets (note 13.h).
- The useful lives of property, plant and equipment and intangible assets (notes 13.r and 13.s).
- The fair value of certain unlisted assets (note 13.e).
- The cost and anticipated development of provisions and contingent liabilities (note 13.v).
- Assumptions used to calculate insurance liabilities (note 13.u).
- The actuarial assumptions used to calculate post-employment benefit liabilities and commitments (note 13.p)
- Assumptions used to calculate the fair value of the loan book and non-current assets held for sale of the Ipar Kutxa Rural, S.Coop. de Crédito Group as of 1 November 2012 (note 1.2).
- The assessment of the ability to utilise the tax credits recognised (note 13.q).

Since these estimates have been made based on the best information available at 31 December 2012 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.

a) 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 Council 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 2012 there have been changes in the accounting regulations applicable to the Group compared with those applied last year. A list of the changes that may be considered to be most relevant is provided below:

i) Standards, amended standards and interpretations effective for annual periods beginning on or after 1 January 2012

- IFRS 7 (amendment) 'Financial instruments: Disclosures – Transfers of financial assets'

  The amended IFRS 7 requires additional disclosures regarding exposure to risks deriving from financial assets transferred to third parties. The amended standard requires disclosures on the evaluation of risks and rewards performed in relation to transactions that have not qualified for derecognition and the identification of associated financial liabilities, as well as more detailed disclosures on transactions that have qualified for derecognition (the gain/loss generated by the transaction, the retained risks and rewards, their initial and subsequent recognition for accounting purposes and the estimated fair value of the 'continuing involvement' recognised on the balance sheet). This amendment will affect sales transactions, receivables discounting, securitisations and securities loans, among other financial assets.

  The amended IFRS 7 is mandatorily applicable for annual periods beginning on or after 1 July 2011.

  Application of this amended standard did not have a material impact on the Group's consolidated financial statements.

ii) Standards, amended standards and interpretations that are not yet effective but can be early applied in years beginning on or after 1 January 2012

At the date of authorising these consolidated financial statements for issue, the IASB and IFRS Interpretations Committee had published the following standards, amended standards and interpretations that are mandatorily applicable from 2013 and which the Group has not early applied.

- IAS 1 (amendment), 'Presentation of financial statements'

  This amendment changes the presentation of the statement of comprehensive income, requiring that the items presented in other comprehensive income (OCI) be grouped into two categories depending on whether they are potentially reclassifiable to profit or loss subsequently. Items that will not ultimately be recycled into profit or loss, such as fixed asset revaluations, are to be presented separately from those that will be reclassified into profit or loss in the future, such as gains or losses on cash flow hedges.

  As with the earlier version of IAS 1, reporting entities still have the option of presenting OCI items before tax. If an entity avails of this option, it must show the tax effect of both recyclable and non-recyclable items separately. IAS 1 also changes the name of the 'statement of comprehensive income', which will now be called the 'Statement of profit or loss and other comprehensive income'. Alternative name use is still permitted.

This standard is effective for annual periods beginning on or after 1 July 2012. Early application is permitted.

The Group is in the process of analysing this amendment's potential impact on the Group's consolidated financial statements.

- <u>IAS 19 (amendment), 'Employee benefits'</u>

The amended IAS 19 significantly changes how defined benefit pension and termination expenses are recognised and measured, as well as changing disclosure requirements for all employee benefits. The amended standard changes the following aspects of IAS 19, among others:

- Actuarial gains and losses (now termed 'remeasurements') may now only be recognised with a charge or credit to other comprehensive income. The revised standard eliminates the choices of deferring actuarial gains and losses by using the 'corridor approach' and of recognising them directly in profit or loss. Remeasurements recognised in other comprehensive income may no longer be recycled to the income statement.

- Past-service costs must be recognised in the year in which the defined benefit plan is amended; unvested past service costs may no longer be deferred. A curtailment will only occur when an entity significantly reduces the number of employees covered by a plan. Curtailment gains and losses will be accounted for as past-service costs.

- The annual cost of a financed benefit plan shall include a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

- Any benefit that requires future service shall not be considered a termination benefit.

The amended IAS 19 is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

The new amendment is not expected to have a material impact on the Group's consolidated financial statements.

- <u>IFRS 1 (amendment), 'Severe hyperinflation and removal of fixed dates for first-time adopters'</u>

The amendments relating to severe hyperinflation provide guidance on how an entity should present for the first time or resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

As for the elimination of fixed dates in IFRS 1, the amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRS for the first time to restate transactions that occurred before the date of transition to IFRS.

Although this amendment was mandatorily applicable in annual periods beginning on or after 1 July 2011 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2013.

The new amendment is not expected to have a material impact on the Group's consolidated financial statements.

- IAS 12 (amendment), 'Deferred tax: Recovery of underlying assets'

  The amendment to IAS 12 provides a practical approach for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value, one of the valuation options allowed by IAS 40, 'Investment property'. In relation to the measurement of these deferred taxes, the amendment introduces the rebuttable presumption that investment property measured at fair value is recovered entirely by sale and not through use. The amendments also incorporate SIC 21, 'Income taxes – Recovery of revalued non-depreciable assets', into IAS 12, albeit clarifying that this guidance will not apply to investment property measured at fair value.

  Although this amendment was mandatorily applicable in annual periods beginning on or after 1 January 2012 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2013.

  The new amendment is not expected to have a material impact on the Group's consolidated financial statements.

- IFRS 10, 'Consolidated financial statements'

  IFRS 10 introduces changes to the definition of control, which remains the crucial factor in determining whether or not an entity must be consolidated. IFRS 10 replaces the guidelines on control and consolidation laid down in IAS 27, 'Consolidated and separate financial statements' and eliminates SIC 12, 'Consolidation – Special purpose entities', which is thereby repealed.

  Control presents two prerequisites: power over an entity and exposure to or rights over its variable returns. Power is defined as the current ability to direct the activities of the investee that significantly affect the investee's returns. The standard provides extensive application guidance for cases in which it is difficult to assess the existence of control, for example, when an investor holds less than half of an investee's voting rights. The core principle that a consolidated entity present a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.

  Although this amendment was mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

Early application of IFRS 10 is allowed so long as the reporting entity simultaneously applies IFRS 10, 'Joint arrangements', IFRS 12, 'Disclosures of interests in other entities', IAS 27 (amended in 2011), 'Separate financial statements' and IAS 28 (amended in 2011), 'Investments in associates and joint ventures'.

The Group is in the process of analysing this new standard's potential impact on the Group's consolidated financial statements.

- <u>IFRS 11, 'Joint arrangements'</u>

  IFRS 11 provides the accounting treatment framework for joint arrangements on the basis of the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its proportionate interest in the operation's assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the profit or net assets of the arrangement and hence equity accounts for its interest. Proportionate consolidation of joint ventures is no longer allowed.

  Although this amendment is mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014. The accounting treatment changes required under IFRS 11 are shown at the start of the earliest period presented in the financial statements. The standard contains specific guidance on the mechanics for transitioning from the proportionate consolidation method to the equity method, and vice versa.

  Early application of IFRS 11 is allowed so long as the reporting entity simultaneously applies IFRS 11, 'Consolidated financial statements', IFRS 12, 'Disclosures of interests in other entities', IAS 27 (amended in 2011), 'Separate financial statements' and IAS 28 (amended in 2011), 'Investments in associated and joint ventures'.

  The Group is in the process of analysing this new standard's potential impact on the Group's consolidated financial statements.

- <u>IFRS 12, 'Disclosures of interests in other entities'</u>

  IFRS 12 includes the disclosure requirements for all entities reporting under the new IFRS 10, 'Consolidated financial statements', and the new IFRS 11, 'Joint arrangements'. It additionally replaces the disclosure requirements formerly included in the old IAS 28, 'Investments in associated companies', and IAS 31, 'Interests in joint ventures'. Under IFRS 12, reporting entities must disclose information that allows financial statement users to assess the nature, risks and financial consequences associated with its interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Reporting entities must disclose the following information, among other disclosure requirements:

  - The significant judgements and assumptions made in determining the existence of control, joint control or significant influence;

  - The composition of the group, including disclosures regarding the interests that non-controlling interests have in the group's activities and cash flows;

- The risks associated with interests in consolidated structured entities, such as agreements under which the group may be required to provide the investee with financial support;

- The accounting treatment for transactions with non-controlling interests in situations in which control over a subsidiary is preserved or lost;

- Interests in associates and joint agreements (similar to the disclosure requirements under the former IAS 28);

- Interests in unconsolidated structured entities: the nature, purpose, size, activities and financing arrangements of these entities, financial information (income, assets), information regarding the on-balance sheet assets and liabilities belonging to these structured entities, the maximum exposure to losses as a result of these interests and the financial support extended to these entities and/or current plans to extend such support.

Although this amendment is mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

In order to encourage inclusion of the new disclosure requirements under IFRS 12 before the standard's effectiveness date, the standard itself clarifies that the disclosure of part of the information required under IFRS 12 does not oblige the entity to comply with all of the standard's provisions or to simultaneously adopt IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', IAS 27 (amended in 2011), 'Separate financial statements' and IAS 28 (amended in 2011), 'Investments in associated and joint ventures'.

The Group is in the process of analysing this new standard's potential impact on the Group's consolidated financial statements.

- <u>IAS 27 (amendment), 'Consolidated and separate financial statements'</u>

The requirements previously established in IAS 27 with respect to the preparation of consolidated financial statements are included in the new IFRS 10 and therefore the former scope of application is reduced to the accounting for investments in subsidiaries, joint ventures and associates in the individual financial statements prepared under IFRS by the investing company, which have not changed with respect to existing rules (i.e. recognition at cost or fair value as per IFRS 9).

Although the amended IAS 27 is mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

Early application is allowed so long as the reporting entity simultaneously applies IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', IFRS 12, 'Disclosures of interests in other entities' and IAS 28 (amended in 2011), 'Investments in associated and joint ventures'.

The Group is in the process of analysing its potential impact on the Group's consolidated financial statements.

- <u>IAS 28 (amendment), 'Investments in associated companies'</u>

IAS 28 has been updated to make reference to the joint ventures which under the new IFRS 11, 'Joint arrangements', must be accounted for using the equity method of consolidation. Additional information on the following matters has also been added:

- The accounting treatment of instruments providing potential voting rights;
- The measurement of interests in associates and joint arrangements held by venture capital organisations, mutual funds and similar entities;
- The accounting treatment when an entity reduces its interest in an associate or a joint arrangement and the equity method continues to apply; and
- The accounting treatment of the contribution of a non-monetary asset to an associate or a joint arrangement in exchange for a shareholding in that investee.

Although the amended IAS 28 is mandatorily applicable in annual periods beginning on or after 1 January 2013 according to the date of effectiveness established by the IASB, for European Union purposes, the amendment is effective for annual periods beginning on or after 1 January 2014.

Early application is allowed so long as the reporting entity simultaneously applies IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', IFRS 12, 'Disclosures of interests in other entities', and IAS 27 (amended in 2011), 'Consolidated and separate financial statements'.

The Group is in the process of analysing its potential impact on the Group's consolidated financial statements.

- <u>IFRS 13, 'Fair value measurement'</u>

IFRS 13 is the outcome of a joint initiative by the IASB and the FASB (the US Financial Accounting Standards Board) and is intended to explain how to value items at fair value, all with a view to improving and expanding fair value disclosures. This standard does not stipulate which items must be measured at fair value; nor does it introduce new fair value disclosure requirements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). It is based on the perspective of market participants rather than simply that of the reporting entity. It introduces a three-level fair value hierarchy for non-financial assets and liabilities, similar to what IFRS 7 currently prescribes for financial instruments, which ranks fair value measurements based on the type of inputs. The new standard's disclosure requirements include disclosure of the valuation techniques and inputs used and of any changes in valuation technique.

This standard is mandatorily applicable for annual periods beginning on or after 1 January 2013.

The new standard will be applied prospectively from the beginning of the fiscal year in which it is applied for the first time. The disclosure requirements do not apply to the comparative information presented in respect of fiscal years prior to that of first-time application of IFRS 13.

The Group is in the process of analysing this new standard's potential impact on the Group's consolidated financial statements.

- <u>IFRIC 20, 'Stripping costs in the production phase of a surface mine'</u>

  This interpretation is the result of a request for clarification on how and when to account for overburden waste removal (stripping) costs incurred in the production phase of a surface mine in order to gain access to mineral deposits. IFRIC 20 defines when such stripping costs must be recognised as an asset on the balance sheet and how they should be measured upon initial and subsequent recognition.

  IFRIC 20 is mandatorily applicable for annual periods beginning on or after 1 January 2013.

  This new interpretation is not expected to have a material impact on the Group's consolidated financial statements.

- <u>IAS 32 (amendment) and IFRS 7 (amendment), 'Offsetting financial assets and financial liabilities'</u>

  The IASB issued an amended IAS 32, 'Offsetting financial assets and financial liabilities', and an amended IFRS 7, 'Disclosures – 'Offsetting financial assets and financial liabilities' in December 2011.

  The amended IAS 32, 'Financial instruments: Presentation', modifies the guidance for applying the standard in order to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments do not change the current offsetting model in IAS 32, which continues to apply when, and only when, the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. The amendments clarify that the right of set-off must be available today – that is, it is not contingent on a future event.

It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The so-amended IAS 32 is mandatorily applicable for annual periods beginning on or after 1 January 2013 and must be applied retroactively. Early adoption is permitted.

Because the requirements for offsetting financial assets and financial liabilities are still different to those applied under US GAAP, the IASB introduced a further amendment to IFRS 7, 'Financial instruments: Disclosures'. The amended IFRS 7 requires the disclosure of quantitative information regarding recognised financial instruments that have been offset in the balance sheet and regarding financial instruments subject to master netting arrangements, regardless of whether or not these have been offset. The so-amended IFRS 7 is mandatorily applicable for annual periods beginning on or after 1 January 2013 and must be applied retroactively.

The Group is in the process of analysing the potential impact of these amendments on the Group's consolidated financial statements.

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

At the date of authorising the accompanying consolidated financial statements for issue, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

- IFRS 9, 'Financial instruments'

  The issuance of IFRS 9, 'Financial Instruments', in November 2009 marked the first milestone in the IASB's proposed overhaul which will culminate in the substitution of IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 simplifies the accounting treatment of financial assets and introduces new classification and measurement requirements. It requires that financial assets held principally for the collection of the contractual cash flows, representing payments of principal and interest, be measured at amortised cost and that all other financial assets, including those held for trading, be carried at fair value. As a result, the impairment testing model is only required for financial assets carried at amortised cost. The IASB updated IFRS 9 in October 2010 to include guidance on classification and measurement of financial liabilities and on derecognition of financial instruments. The classification and measurement of financial liabilities under IFRS 9 remains the same as under IAS 39 except where an entity has chosen to measure a liability at fair value through profit or loss. For such liabilities, changes in fair value related to changes in own credit risk are to be presented separately in other comprehensive income. Amounts in other comprehensive income relating to own credit are not recycled to the income statement even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity. If an entity determines upon initial recognition of such liabilities that this accounting treatment would imply an accounting mismatch in respect of the measurement of the associated financial assets, the full amount of the changes in the instruments' fair value may be recognised in profit or loss. So far, prevailing IAS 39 requirements in respect of financial asset impairment and hedge accounting continue to apply.

  This standard is applicable for annual periods beginning on or after 1 January 2015; early application is permitted.

The Group is in the process of analysing this standard's potential impact on the consolidated financial statements in the event it is adopted by the European Union.

- IFRS 9 (amendment) and IFRS 7 (amendment) 'Mandatory effective date and transition disclosures'

  The IASB has published an amendment which has the effect of pushing back effectiveness of IFRS 9 'Financial instruments', currently mandatorily applicable in annual periods beginning on or after 1 January 2015. Under the original transitional provisions, IFRS 9 was to take effect on 1 January 2013. Early application of IFRS 9 is still permitted.

  The IASB has also extended the timeline for completing the other phases of the project for replacing IAS 39, 'Financial instruments: Recognition and measurement' (i.e. covering the accounting treatment of impairment losses and hedge accounting). This amendment stresses the importance of allowing simultaneous application of all phases of the new standard.

  It is also worth noting that the amendment to IFRS 9 introduces changes regarding comparative and additional disclosure requirements following adoption of the new standard depending on when the standard is first applied.

  The Group is in the process of analysing these amendments' potential impact on the consolidated financial statements in the event it is adopted by the European Union.

- IFRS 1 (amended), 'Government loans'.

  The IASB has amended IFRS 1, 'First time adoption of IFRS' in order to allow first-time users of IFRS to apply the provisions encompassed in IAS 20, 'Accounting for government grants and disclosure of government assistance', which apply to entities that already apply IFRS, in relation to government loans at below-market interest rates.

  The new IFRS 1 exception stipulates prospective application of the requirements under IAS 20 and IFRS 9, 'Financial instruments' (or IAS 39, 'Financial instruments: Recognition and measurement', as the case may be) in respect of government loans in place at the date of transition to IFRS. Note that entities may choose to apply IAS 20 and IFRS 9 (or IAS 39) to its government loans retroactively at the time of transition to IFRS if the information needed to do so was duly obtained when the related loans were first recognised.

  The amended IFRS 1 is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

  This amendment is not expected to have a material impact on the Group's consolidated financial statements.

Annual improvements to IFRSs, the 2009-2011 Cycle

- IAS 1, 'Presentation of financial statements'

  IAS 1 has been amended to clarify that the comparative information required under IAS 1 is that of a complete set of financial statements. It further clarifies the minimum comparative disclosure requirements when an entity changes accounting policy or makes retrospective restatements or reclassifications: in this instance, the reporting entity is required to present an opening statement of financial position (known as the third balance sheet); however it is not required to accompany the third balance sheet with the related notes. In contrast, when management voluntarily provides comparative information beyond the minimum required comparative period in its financial statements (e.g. an income statement for a third year or a third balance sheet), it is obliged to include comparative information in the related notes. This improvement has also resulted in an amendment to IFRS 1, 'First time adoption of IFRS', in order to clarify that a first-time adopter must provide supporting notes corresponding to all the main statements presented.

  This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

  This amendment is not expected to have a material impact on the Group's consolidated financial statements.

- IAS 16, 'Property, plant and equipment'

  This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. In the wake of this amendment, servicing equipment expected to be used for more than one year will be classified as part of property, plant and equipment rather than as inventories.

  This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

  This amendment is not expected to have a material impact on the Group's consolidated financial statements.

- IFRS 32, 'Financial instruments: Presentation'

  This amendment resolves a conflict perceived to exist between IAS 32 and IAS 12, 'Income Taxes'. It clarifies that tax credits related to distributions to equity holders and to transaction costs corresponding to any equity item must be accounted for in accordance with IAS 12. As a result, the tax incentives related to distributions to equity holders are recognised in profit or loss and the tax credits relating to transaction costs corresponding to equity instruments are recognised in equity.

  This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

  This amendment is not expected to have a material impact on the Group's consolidated financial statements.

- <u>IAS 34, 'Interim financial reporting'</u>

  IAS 34 has been amended to align the disclosure requirements stipulated by IAS 34 and IFRS 8, 'Operating segments'. The amendment clarifies that an entity that reports interim information under IAS 34 need only disclose information regarding total assets and liabilities for a particular reportable segment when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements.

  This amendment must be applied retroactively and is mandatorily applicable for annual periods beginning on or after 1 January 2013. Early application is allowed.

  The Group is in the process of analysing this amendment's potential impact on the consolidated financial statements in the event it is adopted by the European Union.

- <u>Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)</u>

  The IASB has amended the transitional provisions contained in IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint arrangements', and IFRS 12, 'Disclosure of interests in other entities', in order to clarify that the date of first-time application is the first day of the first annual period in which IFRS 10 is applied for the first time.

  The differences between the 'control' concept under IFRS 10 and IAS 27 / SIC 12 could force an entity to consolidate an entity that was not previously consolidated and vice versa. If a different consolidation conclusion is reached when applying IFRS 10 for the first time, the reporting entity must restate the comparative information for the year immediately preceding the year in which IFRS 10 is applied for the first time, in keeping with the analysis performed, unless so doing is not feasible. Any difference arising as a result of application of IFRS 10 in existence at the start of the comparative period is recognised against equity.

  In contrast, when the decision regarding the need to consolidate does not change on the date of first-time application of IFRS 10 (i.e., the interest would or would not be consolidated under both IAS 27 / SIC 12 and IFRS 10), no accounting adjustment is required. This assistance with transition to the new standard also applies to interests disposed of prior to the date of first-time application of IFRS 10.

  Comparative disclosures under IFRS 12 are required in respect of subsidiaries, associates or joint arrangements. However, they are limited to the comparative period immediately preceding the first annual period in which IFRS 12 is applied for the first time. Moreover, comparative information disclosures are not required in respect of unconsolidated structured entities.

  The amendments to the above-listed standards are mandatorily applicable for annual periods beginning on or after 1 January 2013, in keeping with the dates of effectiveness of the standards so amended. Early adoption is required if the related standards (IFRS 10, IFRS 11 and IFRS 12) are also early adopted.

This amendment is not expected to have a material impact on the Group's consolidated financial statements.

- Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27).

  Under certain circumstances, the amended IFRS 10 exempts investment funds and similar entities from consolidating the entities under their control. Instead, these entities must be carried at fair value through profit or loss. Accordingly, these amendments constitute an exception for entities that meet the definition of 'investment entities' and present specific characteristics. IFRS 12 has also been amended to introduce the disclosures that investment entities must make in their consolidated annual financial statements.

  The amendments to the above-listed standards are mandatorily applicable for annual periods beginning on or after 1 January 2014. Early application is permitted so long as all the listed amendments are adopted simultaneously.

  These amendments are not expected to have a material impact on the Group's consolidated financial statements.

b) 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.

There were no material prior-period errors in 2012 or 2011 or significant changes in accounting estimates, other than those mentioned in note 2.4, that affect the financial statements for those years or that could affect them in future years.

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, following the changes introduced in the criterion for distributing the available surplus at the Extraordinary General Assembly of 30 December 2005, establish that the available surplus, following compliance with the obligations that may derive from the coverage of mandatory capital or the solvency coefficient, should be appropriated 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.

(Expressed in €' 000)

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 appropriation of the New Entity's surplus for the period elapsing between 2 November and 31 December 2012 that the Governing Council of the Parent Entity plans to submit before the General Assembly and that already approved for 2011 is as follows:

	2012	2011
Appropriation:		
- Gross interest, distributed against the appropriation of gross surplus for the year, paid on share capital contributions	22,087	19,407
Share capital		
- Mandatory Reserve Fund	-	-
- Education and Development Fund (*)	-	-
- Reimbursements to members	-	-
- Inter-Coop Company Fund	-	-
Result for the year	22,087	19,407

(*) The amount earmarked to the Education and Development Fund corresponds to the minimum mandatory sum of zero euros in 2012 and zero euros in 2011 (note 64).

In turn, in keeping with the provisions of article 12.3 of the Credit Cooperatives Act, approved by means of Royal Decree 84/1993, of 22 January 1993, the net surplus generated by the extinguished Caja Laboral between 1 January and 1 November 2012 will be earmarked to the Mandatory Reserve Fund.

5. Information per business segment

The activity carried out by the Group largely consists of retail banking. There are no other significant lines of business that require disclosure and detailed information on their operation, as if each were a separate business and had separate equity, except for the insurance business contributed by the subsidiary Seguros Lagun-Aro Vida, S.A. The most significant contributions of Seguros Lagun-Aro Vida, S.A. to the consolidated balance sheet and consolidated income statement, not taking into account the effect of transactions with group companies for 2012 and 2011, are set out below:

	2012	2011
Consolidated income statement:		
Contribution to gross margin from insurance operations	72,960	10,016
Administration expenses	40,055	(4,993)
Surplus for the year	23,969	3,734
Consolidated balance sheet:		
Total assets	689,412	705,811

There are no geographical differences in the territory of operation of the Group (Autonomous Region of the Basque Country and Navarra and the rest of Spain) which would justify the reporting of operations on a segment basis.

6. Minimum capital requirements

Bank of Spain Circular 3/2008, of 22 May 2008, governing the assessment and monitoring of minimum capital requirements of credit institutions (hereinafter, "Circular 3/2008") and its subsequent amendments regulate the minimum capital reserves to be held by Spanish credit institutions at both the individual and consolidated group levels along with the various related self-assessment processes and the public information that has to be disclosed to the market.

Circular 3/2008 marked the final enactment in respect of credit institutions of the legislation regarding the consolidated-basis capital requirements and oversight of financial institutions dictated by Spanish Law 36/2007, of 16 November 2007, amending Law 13/1985, of 25 May 1985, on investment ratios, capital and reporting obligations of financial intermediaries and other financial system regulations, and encompasses Royal Decree 216/2008, of 15 February 2008, on financial institutions' capital requirements. This piece of legislation also marked the culmination of the process of adapting Spanish legislation governing credit institutions to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast), in line with the principles adopted in the Basel II Capital Accord.

The minimum capital requirements established in the abovementioned Circular (Pillar I) are calculated as a function of the Group's exposure to risk-weighted assets, namely exposure to loans, exchange risk, trading portfolio risk, market risk and operational risk. The Group is similarly subject to compliance with the risk concentration limits established in this same Circular as well as internal corporate governance requirements.

As for Pillar II requirements, the Circular establishes the obligation to prepare a report in which credit institutions have to self-assess their capital situations with a view to ensuring an adequate balance between their risk profiles and the capital actually held, while facilitating target setting and medium term planning in respect of capital.

Lastly, in respect of Pillar III, the Circular stipulates that reporting entities prepare, at least annually, a document titled "Prudential information report", which must include any and all explanations and details as may be necessary in relation to eligible capital, capital requirements as a function of risk-weighted assets and other disclosure requirements.

Elsewhere, in a meeting held on 12 September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Banking Supervision Committee, announced substantial tightening of prevailing capital requirements, going on to approve the agreements reached on 26 July 2010 (Basel III). The Entity is getting ready for the amendments to solvency regulations anticipated when the so-called Basel III framework capital accord takes effect. It is currently scheduled to take effect on a staggered basis between 2014 and 2019.

In keeping with the above, Royal Decree-Law 2/2011 was passed on 18 February 2011 in order to bolster the financial system. The goal is to tighten existing capital requirements in quantitative and qualitative terms, in line with the spirit of the new international standards known as Basel III.

Final Provision Twenty of Law 9/2012 gave the Bank of Spain the power to issue specific provisions in order to ensure due execution of the minimum core capital regime provided for in Royal Decree-Law 2/2011, as amended in Final Provision Seven thereof. Bank of Spain Circular 7/2012, of 30 November 2012, on credit institutions' minimum core capital requirements requires credit institutions to hold *capital principal*, akin to and hereinafter referred to as 'core' capital, equivalent to at least 9% of risk-weighted assets.

This Circular itemises the eligible instruments that qualify as core capital, how they compute and the requirements for their issuance, specifically in relation to mandatory convertible bonds. The Circular was issued against the backdrop of the instrument and issue terms and conditions contemplated in the recommendations issued by the European Banking Authority (EBA) in the context of recently completed recapitalisation exercises.

Bank of Spain Circular 7/2012 further determines how risk-weighted exposures may be adjusted so that the capital requirement in respect of each risk exposure does not exceed the amount of the exposure itself in order to ensure that the relationship between risk exposures and the related core capital requirements remain compatible. Lastly, it establishes the frequency and form for making core capital compliance statements.

Bank of Spain Circular 7/2012 took effect on 1 January 2013. However, Transitional Provision One thereof requires, exceptionally, that reporting entities prepare a core capital statement as of that date on the basis of their risk-weighted assets as of the close of 31 December 2012 and in keeping with the provisions of Law 13/1985 on investment ratios, capital and reporting obligations of financial intermediaries and all related enacting regulations introduced to date. The deadline for presenting this statement to the Bank of Spain was 28 February 2013. At the date of authorising the accompanying consolidated financial statements for issue, the Group was in compliance with these regulatory obligations.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

The Group manages its capital following the definitions outlined in Bank of Spain Circular 3/2008, as subsequently amended, Royal Decree-Law 2/2011 and Law 9/2012. Specifically, the Group deems its eligible capital to include the forms of capital listed in standard 8 of Bank of Spain Circular 3/2008.

At 1 December 2012 and 2011, the Group's eligible capital was as follows:

	2012	2011
Basic shareholder assets		
Capital	656,848	486,107
Computable reserves	697,301	1,090,106
Reserves	697,301	1,090,106
Computable profits for the year	-	-
Measurement adjustments	-	(127,932)
(-) Other deductions	(35,567)	(32,717)
	1,318,582	1,415,564
Second level shareholder's assets		
Revaluation reserves	1,212	-
Additional insolvency risk coverage	91,335	46,219
Community projects Fund	882	913
	93,429	47,132
Other concepts and deductions	(55,046)	(55,875)
Total eligible capital	1,356,965	1,406,821
Total minimum capital requirements	972,529	895,745
Risk weighted assets	12,156,613	11,196,813

On 31 December 2012 and 2011, the following is the most significant data on the Group' minimum capital:

	2012	2011
Basic capital ratio	10.62%	12.39%
Second tier capital ratio	0.54%	0.17%
Total capital ratio	11.16%	12.56%
Core capital (*capital principal*)	10.96%	12.12%

(Expressed in €' 000)

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

a) Statutory remuneration

The Members of the Parent Entity's Governing Body have received no remuneration as such in 2012 and 2011.

b) Other Governing Body and Senior Management Remuneration

For the purposes of preparing these consolidated annual accounts, the 12 people who make up the Parent Entity's Management Committee in 2012 (9 people in 2011) have been regarded as senior management personnel, who have been regarded for such purposes as key Parent Entity personnel. Similarly, the four directors of the Parent Entity (4 in 2011) who, while working members of the same, form part of the Governing Body have also been regarded as key Management personnel in 2012 and 2011.

The table below shows the remuneration accrued to Senior Management of the Parent Entity, as defined here above:

	Short-term remuneration	
	2012	**2011**
Directors	1,338	1,234
	1,338	1,234

Additionally, the remuneration on capital on account (interest) and remuneration received in respect of the complementary distribution of the available surplus (reimbursement to cooperative members) by the Entity's Senior Management in 2012 and 2011 amounted to €141k and €144k, 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 2012 and 2011 in relation to the members of the Parent Entity's Governing Body and Senior Management:

	Interest revenue		Interest expense		Fee revenue	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Directors and Senior Management	34	21	14	13	2	2

The members of the Parent Entity's 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 2012 and 2011.

(Expressed in €' 000)

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 at 31 December 2012 and 2011:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities – Fixed- term deposits and Demand deposits		Guarantees and commitments	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Directors and Senior Management	2,893	1,345	-	-	1,848	1,201	-	-

8. Agency contracts

In keeping with article 22 of Royal Decree 1245/1995, Appendix II lists the individuals to whom the Parent Entity has, as of 31 December 2012, granted power of attorney to represent it (acting in its name and on its behalf) on a regular basis in the negotiation and arrangement of the transactions typical of credit institutions. These relationships derive from the former Ipar Kutxa Rural, S.Coop. de Crédito.

The contractual relationships with these agents have been duly reported to the Bank of Spain as of 31 December 2012. Note that all of these contracts were terminated on 22 January 2013, with effect from 30 June 2013.

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 2012 and 2011, 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

The Parent Entity is a member of the Deposit Guarantee Fund. The expense in 2012 and 2011 for the contributions made by the Group to the Deposit Guarantee Fund amounted to approximately €24,246k and €9,365k, respectively (Note 56). They are included in Other operating charges on the corresponding consolidated income statements.

Royal Decree-Law 16/2011, of 14 October 2011, creating the Credit Institutions Deposit Guarantee Fund took effect on 15 October 2011. Article 2 of this piece of legislation has the effect of extinguishing the Savings Bank Deposit Guarantee Fund, the Banking Establishments Deposit Guarantee Fund and the Credit Cooperatives Guarantee Fund, the assets of which have been transferred to the Credit Institutions Deposit Guarantee Fund, which succeeds the extinguished funds in all of their rights and obligations. As a result, the Entity has been contributing to the new Credit Institutions Deposit Guarantee Fund as from that date.

On 2 December 2011, Royal Decree Law 19/2011, of 2 December came into effect, modifying Royal decree Law 16/2011 which had established that the amount of the contributions by the Entities to the Credit Institutions Deposit Guarantee Fund would increase to reach 2 per thousand of the calculation base. This Royal Decree Law is applicable to the contributions that are made from the time it becomes effective. In 2011, the amount of the contributions was set at 0.8 per thousand of the abovementioned calculation base.

Royal Decree-Law 2/2012, of 3 February 2012, on financial sector reform, decrees that any extraordinary contributions called for by the Credit Institutions Deposit Guarantee Fund from its member entities will become *de facto* assets once the contributions are agreed upon. To this end, on 31 July 2012, in order to restore the fund's financial health, the Management Committee of the Credit Institutions Deposit Guarantee Fund agreed an extraordinary contribution by its member entities of €2,346 million, payable by these members in 10 equal annual instalments on the basis of each entity's proportional contribution as of 31 December 2011. This extraordinary contribution will be paid in by each entity along with its ordinary contributions between 2013 and 2022. The amount payable by each entity on each instalment date may be deducted from its ordinary annual contribution, if any, up to the amount of such ordinary contribution.

As a result of the above agreement and its percentage share of ordinary contributions, the Entity's share of the extraordinary contribution amounts to €30,28 million, payable in 10 annual instalments of €3,03 million.

Lastly, Circular 3/2011 on additional contributions to deposit guarantee funds by member entities took effect on 4 July 2011. This Circular requires member entities that arrange term deposits or remunerate demand accounts at rates above certain thresholds to make additional quarterly contributions to the deposit guarantee fund, depending on whether the deposits in question are sight or term deposits. The contribution would be calculated by applying a 500% weighting to deposits arranged or remunerated at higher-than-threshold rates when calculating ordinary contribution requirements. In 2012 the Group accrued expense in this respect in the amount of €23k, which is recognised under "Other operating charges – Contribution to Deposit Guarantee Fund" in the accompanying consolidated income statement (2011: €15k). The Repeal Provision of Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions, eliminates these additional contribution requirements.

11. Audit fees

The cost for the Group of the external audit services in 2012 has amounted to €349k **(**€307k in 2011). Additionally the cost for the Group of other services provided during 2012 has amounted to €406k (€167k in 2011).

12. Events after the balance sheet date

In the period 31 December 2012 to the date on which these consolidated annual accounts have been prepared, no events have taken place that significantly affect the Group.

13. Accounting principles and standards 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 have been drawn up using the historical cost method, albeit modified by the restatement, wherever appropriate, of land and buildings, performed on 1 January 2004, as described in Note 13.r, and of the fair value measurement of Financial assets available for sale and 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 attaching to the element 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 with respect to changes in interest rates or the fair value of certain equity instruments in the available-for-sale financial asset portfolio.

The financial derivatives implicit in other financial instruments or other principal contracts are carried separately as derivatives when their risks and characteristics do not relate closely to the principal contracts and provided that such principal contracts are not classified under the Trading Portfolio and Other financial assets or liabilities at fair value with changes in the income statement.

Set out in section e) Financial assets of this Note is a description of the measurement rules used for Financial derivatives**.**

e) Financial assets

<u>Classification</u>

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

i) Cash on hand and on deposits at central banks which relate to cash balances and balances held at Bank of Spain and other central banks.

ii) Trading portfolio which includes the financial assets that have been acquired in order to realise them in the short term, they form part of a portfolio of financial instruments identified and managed jointly for which actions have recently been carried out to obtain short-term gains or they are derivatives not designated as accounting hedges.

iii) Other financial assets at fair value with changes in the income statement which include the financial assets that, while not forming part of the trading portfolio, are regarded as hybrids and are carried in full at fair value and those which are managed jointly with insurance contract liabilities measured at fair value or with financial derivatives the purpose or effect of which is to significantly reduce exposure to variations in fair value or which are managed jointly with financial liabilities and derivatives in order to significantly reduce interest rate exposure.

iv) Available-for-sale financial assets which relate to debt securities not classified as held-to-maturity investments, other financial assets at fair value with changes in the income statement, credits, loans and discounts or trading portfolio and equity instruments in companies which are not subsidiaries, associates or Multigroup entities and which have not been included in trading portfolio categories and other assets at fair value with changes in the income statement.

v) Credits, loans and discounts which include the financial assets in respect of which while not being traded on an active market or not being obligatorily measured at fair value, cash flows involve a specific or determinable amount and in which the Group's entire outflow will be recovered, other than for reasons attributable to debtor solvency. It records the investment arising out of the typical credit activity, such as the cash amounts drawn down yet to be repaid by customers on loans or the deposits placed with other institutions, regardless of how they are instrumented legally, and unlisted debt securities, as well as the debt contracted by buyers of goods or users of services, which are part of the Group's business.

vi) Held-to-maturity investments, which include debt securities with fixed maturities and determinable cash payments that the Group has, both upon initial recognition and at all subsequent dates, the positive intention and the proven ability to hold to maturity.

vii) Adjustments to financial assets due to macro-hedging which relates to the balancing entry of the amounts credited 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) Derivatives held for hedging that include the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

ix) Non-current financial assets 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.w.

x) Shareholdings which include equity instruments in Associates and Multigroup entities.

xi) Pension-linked insurance 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.

xii) Assets held for reinsurance which include the amounts that the Group is entitled to receive deriving from reinsurance contracts with third parties and, specifically, the share of reinsurance in the technical reserves recorded by the Insurance Companies included in the Group as subsidiaries.

Recognition and measurement

Generally financial assets are initially carried at cost. They are subsequently measured at the accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except for credits, loans and discounts, the held-to-maturity investment portfolio, equity instruments whose fair value may not be determined in a sufficiently objective manner and financial derivatives for which the underlying assets are such equity instruments and which are settled through the delivery of the same.

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.

The fair value of OTC financial derivatives is the sum of future cash flows arising on the instrument and discounted at the measurement date using methods recognised by the financial markets.

iv) Credits, loans and discounts and the held-to-maturity investment portfolio are measured at 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 Credits, loans and discounts 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.

v) Holdings in the capital of other companies where the fair value cannot be calculated sufficiently objectively and the financial derivatives which have such instruments as their underlying asset and are settled by delivery of said instruments are stated at cost, corrected, as appropriate, to take into account any losses for impairment that may have incurred.

Variations in the carrying value of financial assets are generally recorded with the balancing entry in the consolidated income statement, differentiating between those arising on the accrual of interest and similar items, which are recorded under Interest and similar revenue, and those which relate to other causes, which are carried at net value under Results of financial operations in the consolidated income statement.

Variations in carrying value of the instruments included under Available-for-sale financial assets are recorded temporarily under Measurement Adjustments continue to form part of consolidated equity until the relevant asset is written off the consolidated balance sheet at which time they are written off against the consolidated income statement.

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 efficient part of the cover of the hedges are temporarily recorded under Measurement Adjustments to consolidated equity.

iv) For net investment in foreign operation hedges, measurement differences arising on the efficient part of hedge cover are temporarily recorded under Measurement Adjustments to 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.

<u>Reclassification among financial instrument portfolios</u>

Reclassifications among financial instrument portfolio only take place in the following cases:

i) Except in the case of the exceptional circumstances indicated under paragraph iv) above, financial instruments classified as "At fair value through changes in profit and loss" cannot be reclassified either within or outside of this category of financial instruments once acquired, issued or assumed.

ii) If as a result of a change in the intention or the financial capacity a financial asset ceases to be classified under the "Held-to-maturity investment portfolio" it is reclassified to the category "Available-for-sale financial assets" In this case the same treatment is applied to all financial instruments classified in the held-to-maturity investment portfolio, unless the reclassification falls under one of the cases allowed by legislation (sale very close to the maturity date or once practically all of the principal amount relating to the financial asset has been collected, etc.).

    During 2012 and 2011 no sale not allowed by legislation applicable to financial assets classified as held-to-maturity was carried out.

iii) As a result of a change in the Group's intention or financial capacity or, once the two year penalty period established by applicable legislation has elapsed in the event of the sale of financial assets classified under the Held-to-maturity investment portfolio, debt securities included under the category "Available-for-sale financial assets" may be reclassified to be "Held-to-maturity investment portfolio". In this case, the fair value of these financial instruments at the transfer date becomes their new amortized cost and the difference between this amount and the redemption value is taken to the profit and loss account by applying the effective interest rate method over the residual life of the instrument concerned.

    During 2021 and 2011 no reclassification defined in the preceding paragraph took place.

iv) A non-derivative financial asset can be reclassified out of the held-for-trading and available-for sale portfolios if it is no longer held for the purpose of being sold or repurchased in the near term, so long as one or more of the following circumstances is met:

    a. In rare and exceptional circumstances, unless concerning assets that could have been included under the category of credit investments. For these purposes, rare and exceptional circumstances are those that arise from a particular event that is unusual and highly unlikely to be repeated in the foreseeable future.

    b. When the Group has the intention and financial capacity to maintain the financial asset for the foreseeable future or until maturity, provided that at initial recognition the definition of credit investment was met.

    If these situations are in place the asset may be reclassified at its fair value on the date of reclassification, without reversing results and considering this value to be its amortized cost. Assets reclassified in this manner cannot be reclassified again under the category of "Trading portfolio".

None of the financial assets included in the held-for-trading and available-for-sale portfolios were reclassified in either 2012 or 2011.

f) Financial liabilities

Classification

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

i) Trading portfolio 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) Other financial liabilities at fair value through changes in profit and 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 at amortised cost that correspond to the financial liabilities that do not fit into any of they 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) Adjustments to financial liabilities due to macro-hedging 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.

v) Derivatives held for hedging that include the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

vi) Liabilities associated with non-current assets for sale which relate to creditor balances arising in Non-current assets for sale.

vii) Insurance contract liabilities 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.

viii) 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, does not comply with the requirements to be regarded as Equity. They are measured at amortised cost unless the Group has designated them as Financial liabilities at fair value if they fulfill the relevant conditions.

In this connection, on 7 April 2006 the Parent Entity's General Assembly approved a change in the by-laws that limits the amount of share capital that may be unconditionally repaid to shareholders during the financial year to an amount equivalent to 1% of the share capital at the end of the preceding year. The Parent Entity's Governing Council retains the right to reject repayments requested by shareholders that exceed this amount (Note 40). As a result, at 31 December 2011 and 2010 capital repayable on-demand is considered to be the remaining balance for which shareholders have the right to request the repayment of capital contributions without it being necessary to obtain the approval of the Parent Entity's Governing Council.

<u>Recognition and measurement</u>

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 Trading portfolio and Other financial liabilities at fair value through changes in profit and loss are carried at fair value, as is 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 carrying value of financial liabilities are generally accounted for with the balancing entry in the consolidated income statement, differentiating between those arising on the accrual of interest and similar charges, which are carried under Interest and similar charges, and those which relate to other causes, which are carried at net value under Gains/ losses on financial transactions (net) in the consolidated income statement.

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

Transfers of financial instruments are recorded taking into account the manner in which the transfer of the risks and benefits associated with the financial instruments are transferred, on the basis of the following:

i) If all the risks and benefits are substantially transferred to third parties, such as in unconditional sales, sales under repos at fair value on the repurchase date, sales of financial assets with a call option acquired or put option issued deeply out of the money, asset securitisation in which the assignor retains no subordinated financing and nor grants any type of credit improvement to the new holders etc, the financial instrument transferred is written off the consolidated balance sheet and at the same time any right or obligation retained or created as a result of the transfer is recognised.

ii) If all the risks and benefits associated with the financial instrument transferred are retained, as in sales of financial assets under repos for a fixed price or the selling price plus interest, security loan contracts in which the borrower is required to return the same or similar assets etc, the financial instrument transferred is not written off the consolidated balance sheet and continues to be measured using the criteria used prior 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.

The Group's securitised funds, I.M. Caja Laboral 1, F.T.A., I.M. Caja Laboral 2, F.T.A. and I.M. Caja Laboral Empresas 1, F.T.A., to which the Group transferred certain loans in 2006, 2008 and 2011, respectively, are fully consolidated in the accompanying 2012 and 2011 consolidated financial statements (notes 26 and 36).

However, the Group does not recognise, unless as the result of a subsequent transaction or development, the non-derivative financial assets and financial liabilities transferred prior to 1 January 2004, which were derecognised in keeping with the formerly applicable accounting standards. At year-end 2012, the Group did not hold any financial assets or liabilities that had been derecognised under the formerly applicable accounting standards prior to 1 January 2004 (at year-end 2011 the Group held securitised assets that had been derecognised in an amount of €11,420k) (note 26).

h) Financial asset impairment

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) For debt instruments, understood as loans and debt securities, when, following their initial recognition, there is an event or combined effect of various events which have a negative impact on the relevant future cash flows.

ii) For equity instruments, when following their initial recognition, there is an event or the combined effect of various events, making it impossible to recover their carrying value.

As a general rule, the carrying value of financial instruments due to impairment is adjusted against the consolidated income statement for the period in which such impairment arises and the recovery of previously recorded impairment losses, if any, is recognised in the consolidated income statement for the period in which such impairment is eliminated or reduced. In the event that the recovery of any amount in respect of the impairment recorded is considered remote, such impairment is written off the consolidated balance sheet although the Group may carry out the necessary actions to attempt to secure collection until the definitive extinguishing of its debt claims due to lapsing, remission or other reasons.

For debt instruments measured at amortised cost, the amount of impairment losses incurred is equal to the negative difference between their carrying value and the present value of estimated future cash flows. For listed debt instruments market value may be used instead of the present value of future cash flows provided that such market value is sufficiently reliable to be considered representative of the value that the Group may recover.

Estimated future cash flows of a debt instrument are all the amounts, principal and interest, that the Group considers it will obtain over the life of the instrument. This estimate takes into account all significant information available at the date of preparation of the consolidated financial statements concerning the possible future collection of contractual cash flows. Likewise, in the estimation of the future cash flows of instruments that have real property guarantees, the ageing of the financial instruments and the cash flows in the sales of those real property guarantees are taken into account, minus the amount of the costs necessary for it latter sale, independently of the probability of execution of such guarantees.

When calculating the present value of estimated future cash flow, the original effective interest rate of the instrument is used as the discount rate if the contractual rate is a fixed rate. Alternatively, the effective interest rate at the date to which the consolidated financial statements refer, determined in accordance with the contract terms, is used when a variable rate is involved.

Debt instrument portfolios, contingent risks and contingent commitments, irrespective of the holder, arrangement or guarantee, are analysed in order to determine the credit risk to which the Group is exposed and estimate coverage requirements for impairment. In order to draw up the consolidated financial statements, the Group classifies its transactions on the basis of the credit risk, analysing separately the insolvency risk attributable to the customer and the country-risk to which, if appropriate, they may be exposed.

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

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

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

ii) Future cash flows in each group of debt instruments are estimated based on the Group's experience of historical losses for instruments with similar credit risk characteristics to those of the respective group, following the necessary adjustments to adapt historical data to current market conditions.

iii) Impairment losses in each group are the difference between the carrying value of all the group's debt instruments and the present value of its estimated future cash flows.

Debt instruments not measured at fair value with changes in the income statement are classified on the basis of the insolvency risk attributable to the customer or transaction in the following categories: ordinary risk, substandard risk, doubtful risk due to customer default, doubtful risk due to reasons other than customer default and bad debt risk. For debt instruments not classified as normal risk, the necessary coverage for impairment is estimated taking into account the amounts not paid, the guarantees provided and the financial position of the customer and, where appropriate, the guarantor. These estimates are made generally on the basis of the default schedule based on the Group's experience and sector information.

Similarly, debt instruments not measured at fair value with changes in the income statement and contingent risks, irrespective of the customer, are analysed to determine the credit risk by reason of country risk. Country risk is understood as the risk attaching to customers resident in a specific country due to circumstances other than the habitual business risk.

In addition to the specific covers for impairment indicated above, the Group covers against the inherent losses incurred in debt instruments not stated at fair value with changes in the income statement and in the contingent risks classified as normal risk using a bundled cover. Such collective cover which relates to the statistical loss is made taking into account historical experience of impairment and other circumstances known at the time of assessment and relates to inherent losses incurred at the date of the financial statements, calculated using statistical procedures, which have yet to be assigned to specific transactions.

In this respect, the Group has used, since it does not have sufficient historical and statistical experience of its own in this respect, the parameters established by the Bank of Spain, based on its experience and information on the sector, which determine the method and amount to be used to cover inherent impairment losses incurred in debt instruments and contingent risks classified as normal risk, which are changed regularly on the basis of the development of the data in question. This method for determining coverage of impairment losses incurred in debt instruments is carried out through the application of percentages to debt instruments not measured at fair value with changes in the income statement and contingent risks classified as normal risk. The aforementioned percentages vary based on the classification of those debt instruments under normal risk in the following subcategories: With no appreciable risk, Low Risk, Medium –Low Risk, Medium Risk, Medium – high Risk and High Risk.

The recognition in the consolidated income statement of the accrual of interest on the basis of the contractual terms is interrupted for all debt instruments classified individually as impaired and for those for which impairment losses have been calculated collectively because the amounts involved are more than three months past due.

The amount of impairment losses incurred in debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between their acquisition cost, net of any repayment of the principal, 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 Measurement adjustments 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 case of debt securities, in the consolidated income statement for the recovery period, and, in the case of equity instruments, under Measurement adjustments to consolidated equity.

The Group deems the following circumstances, approved by the Parent Entity's Asset and Liabilities Committee on 22 October 2012, to constitute evidence of impairment of equity instruments classified as available-for-sale financial assets:

- Shares listed on active markets: sustained capital losses for an uninterrupted period of 18 months that surpass 40% of cost at the time of testing for impairment.

- Private equity investments: due to the specific characteristics of private equity investments, which need a prolonged period of time to mature, the 18-month period contemplated above for listed shares is extended to 3 years (36 months) in this instance; the capital loss threshold is still 40%.

- Collective investment undertakings: these financial investments are deemed impaired when either of these two situations occurs (the most restrictive):

    - Sustained capital losses for an uninterrupted period of 18 months that surpass 40% at the time of testing for impairment.

    - Sustained capital losses for an uninterrupted period of 4 years that surpass 10% of the asset's average list price during the period analysed.

For debt and equity instruments classified as non-current assets held for sale, any losses previously recognised in consolidated equity are considered realised and are recycled to the consolidate income statement at the time of classification as such.

In the case of debt securities classified as available-for-sale financial assets and/or held for trading, the Group deems the assets impaired in the event of principal or coupon payments past due by more than 90 days, capital losses of over 40% with respect to cost or ratings downgrades.

Impairment losses on equity instruments carried at acquisition cost are measured at the difference between their carrying amounts and the present value of expected future cash flows, discount at market yields for similar securities. These impairment losses are recognised in the consolidated income statement in the year in which they arise by directly writing down the cost of the financial asset. They cannot be reversed unless the impaired assets are sold.

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 income statement in the year in which they arise and any subsequent reversals are similarly recognised in the consolidated income statement in the year in which the impairment reversal occurs.

i) Measurement of foreign currency accounts

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 2012 and 2011:

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollars	57,658	23,162	44,718	19,325
Pounds sterling	1,277	1,068	880	216
Japanese yen	1,295	30	2,414	2
Swiss franc	1,747	286	1,579	122
Other	1,064	481	542	140
	63,041	25,027	50,133	19,805

The equivalent value in €'000 of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash on hand and on deposit at central banks	1,115	-	730	-
Available- for- sale financial assets	42,323	-	34,142	-
Credits, loans and discounts	19,603	-	15,261	-
Financial liabilities at amortised cost	-	21,527	-	19,805
Hedging derivatives	-	474	-	-
Provision for contingent risks	-	3,026	-	-
	63,041	25,027	50,133	19,805

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 translated 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 translated at the exchange rate on the date of acquisition.

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

iv) Income and expense are translated 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 Measurement Adjustments 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 translated through the application of the year-end exchange rate.

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

iii) Equity is translated 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 Measurement adjustments 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 2010 and 2009 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 collected for financial services, irrespective of their denomination under contract, are classified in the following categories that determine the manner in which they are allocated in the income statement:

i) Financial fees are those that form an integral part of the return on or effective cost of a financial transaction and are allocated to the consolidated income statement over the expected life of the transaction as an adjustment to cost or the effective return on the same. These include origination fees for asset products, exceeded credit fees and overproject fees in liability accounts. Accrued financial fees in 2012 amounted to €7,760k (€4,722k in 2011).

   Financial fees on operations formalised each year are deferred, as indicated above, insofar as they do not offset the direct costs of the operations in question. Fees taken to results in 2012 and 2011 to offset the direct costs of operations formalised are included under "Other operating income" in the consolidated income statement (Note 55).

ii) Non-financial fees are those deriving from the provision of services and may arise on the performance of a service carried out during a period of time and the provision of a service carried out in a single act (see Notes 51 and 52).

Income and expense in respect of fees and similar items are recorded in the consolidated income statement generally in accordance with the following:

i) Those related to financial assets and liabilities measured at fair value with changes in the income statement are recorded at the time of collection.

ii) Those that relate to transactions or services which are carried out during a period of time are recorded during the period in which such transactions or services take place.

iii) Those that relate to a transaction or service which is carried out in a single act are recorded when the relevant act takes place.

Non-financial income and expense are recorded on an accruals basis. Collections and payments deferred over more than one year are accounted for at the amount resulting from financially discounting the expected cash flows at market rates.

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 "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 an unassociated 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 for contingent risks and commitments", 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 substantially all the risks and benefits attaching to the ownership of the assets subject to the contract are 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 caption Credits, loans and discounts 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 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 income statement 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 Fees collected in the consolidated income statement (Note 51).

o) Investment funds and pension funds managed by the Group

Investment and pension funds managed by the Group are not recognised in it's consolidated balance sheet as the fund assets are owned by third parties (Note 67). Fees accrued during the year for services rendered to the funds by the Group (asset management, portfolio depository services, etc.) are recorded in "Fees collected" in the consolidated income statement (Note 51).

p) 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.

Past service costs, resulting from changes in post-remuneration expenses that already exist or when new benefits are introduced, are recognised, on a straight-line basis, over the period between when the new commitments arise and the date the employee becomes irrevocably entitled to receive the new benefits. Post-employment remuneration is recorded in the income statement as follows:

i) The cost of the services of the current period, corresponding to the increase in the present value of the obligations originating as a result of the services provided by the employees in the year is recorded in Staff costs.
ii) In the heading interest and similar charges, are recorded the cost of interest for the years increase of the present value of the obligations due to the pass time.

iii) The expected return on the assets assigned to cover the commitments, less any cost originated by their administration and the taxes levied thereon, is recorded in Interest and similar revenue.

iv) The amortisation of the actuarial results is recorded in Provisions (net), applying the treatment of the fluctuation band and unrecognised past service costs.

Caja Laboral's policy of depreciating actuarial losses and/or gains on post-employment obligations consists of directly recognizing these items in the income statement at the time they arise. Actuarial losses and/or gains arise due to changes in actuarial assumptions or differences between the assumptions taken into consideration and reality.

Dynamic payroll plan

In 2009 the "Dynamic Payroll Plan" was implemented as approved by the Parent entity's Governing Board that covers a certain group of members of Caja Laboral between 2009 and 2013. The plan is voluntary and only applicable to the defined group once a written request to join the plan is received, in accordance with the conditions established in the plan's regulations.

The main characteristics of the "Dynamic Payroll Plan" are described below:

ii) members who are 60, 61 and 62 years of age and, exceptionally, those of 63 and 64 years of age in 2009 may take early retirement with the right to receive certain compensation.

iii) members who reach an age between 57 and 61 in 2009 and have joined the plan before 30 June 2009, may avail themselves of certain special employment conditions and receive certain compensation, which will accrue up until the date on which services cease to be rendered by the member.

The obligations assumed with respect to the members joining the plan as from the future date on which services cease up until the date of effective retirement agreed with the Entity and other similar issues have been treated for accounting purposes, as applicable, in accordance with the standards for defined benefit post-employment plans.

The obligation accruing at the end of 2012 and 2011 is recognized under the heading "Provisions –Retirement benefit obligations" in the balance sheet at that date (Note 38).

Dynamic payroll plan II

Exceptionally, and as a result of the merger between Caja Laboral and Ipar Kutxa (note 1), in 2012 the Parent Entity approved a new plan called the "Dynamic payroll plan II", which was approved by the Governing Council of the former Caja Laboral. It is targeted at a specific group of members of the former Caja Laboral and will be in effect from 1 January 2013 to 31 December 2018. As with the former plan, 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 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.

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.

q) Corporate income tax

Corporate income tax is considered to be an expense and is recorded under the heading Corporate income tax in the consolidated income statement.

The corporate income tax expense is determined by tax payable calculated with respect to the tax base for the year, taking into account the variations during that year deriving from temporary differences, deductions and credits and tax losses. 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, Multigroup 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, Multigroup 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.

(Expressed in €' 000)

Provincial Decree-Law 1/2013, of 5 February 2013 (hereinafter, Provincial Decree 1/2013), provides that corporate income taxpayers, personal income taxpayers who carry out economic activities, keep their books in accordance with the Code of Commerce or are obliged to keep books recording their economic activity and non-resident income taxpayers with permanent tax residence may, voluntarily, apply the restatements legislated in Provincial Decree 1/2013.

In the case of taxpayers that declare under the consolidated tax regime, in keeping with the provisions of Chapter IX of Title VII of Provincial Law 7/1996 of 4 July 1996 on Corporate Income Tax, any such restatements must be carried out under the individual tax regime.

Provincial Decree 1/2013 further establishes that, as a general rule, items of property, plant and equipment and investment properties located in Spain and abroad shall be eligible for restatement.

The Parent Entity's directors are in the process of analysing the contents of Provincial Decree 1/2013 and its potential accounting and tax consequences. As of the date of authorising the accompanying consolidated annual financial statements for issue, they lack sufficient information to determine whether or not to submit a revaluation motion for approval at the Parent Entity's General Assembly.

r) Property, plant and equipment

Property, plant and equipment for own use relate to tangible assets which are considered will be used on an on-going basis by the group and tangible assets acquired under finance lease. They 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. 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:

	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.

Conservation and maintenance expenses of property, plant and equipment for own use are recorded in the consolidated income statement in the year in which they are incurred.

Investment properties on property, plant and equipment correspond to the net values of the land, buildings and other constructions the Group has to let out or to earn a capital gain on their sale as a result of the 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 property, plant and equipment for own use.

s) 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 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 if it has been acquired for valuable consideration in a business combination.

Positive differences between the cost of the shareholdings in the capital of Subsidiaries, Multigroup 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 acquirees 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 an indefinite useful life when, on the basis of analysis of all relevant factors, the conclusion is reached that there is no foreseeable limit on the period of time during which they will generate positive net cash flows for the Group, or as having a definite useful life. Indefinite-lived intangible assets are not amortised; however the Group reviews their respective remaining useful lives at each reporting date to check that they still qualify as such. Intangible assets having finite useful lives are amortised over their remaining estimated useful lives 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.

t) 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 charges in the consolidated income statement.

u) 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.

Technical provisions (in respect of direct insurance and accepted reinsurance alike) are included within 'Insurance contract liabilities' on 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 Equalisation Reserve, are not recognised within 'Insurance contract liabilities' on the consolidated balance sheet.

The amounts which the Group is entitled to receive under reinsurance agreements are presented within 'Assets held for reinsurance' on the consolidated balance sheet. The Group tests these assets for impairment, recognising any corresponding impairment losses in the consolidated income statement with a direct charge against this heading.

v) 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.

i) 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.

ii) 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 fulfill 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 2012 and 2011 the Group may have to address certain litigations, responsibilities and obligations deriving from the ordinary performance of its operations. The Group's legal advisors and the Parent Entity's directors understand that the finalisation 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 finalise.

w) Non-current assets for sale and liabilities associated with non-current assets for sale

The heading Non-current assets available-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 Gains/(losses) on non-current assets available-for-sale not classified as interrupted operations in the consolidated income statement.

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, Liabilities associated with non-current assets for sale include the credit balances associated with the disposal groups or the discontinued operations of the Group.

The assets classified as non-current assets 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.ix). While they are classed as non-current assets for sale, property, plant and equipment and intangible assets which are depreciable/ amortizable by nature are not depreciated/ amortised.

In the case of real estate assets awarded or received in payment of debt, independently of the legal form employed, these will be recorded initially at the lower of the carrying value of the financial assets applied, that is, their amortised cost, taking into account the estimated impairment, and in any case a minimum of 10%, and the market valuation amount of the asset received in its current state less the estimated selling costs, which in no case shall be lower than 10% of the valuation in their current state.

All the legal process expenses shall be recognised immediately in the Income statement for the period of the adjudication. 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.

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, charging the heading Gains/(losses) on non-current assets available-for-sale not classified as interrupted operations in the consolidated income statement. 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 carrying value of the assets up to the limit of the amount just prior to possible impairment, charging the heading Gains/(losses) on non-current assets available-for-sale not classified as interrupted operations in the consolidated income statement.

The results generated in the year in respect of those components of the Entity that have been considered discontinued operations are recorded under Gains/ losses on discontinued operations (net) in the income statement, irrespective of whether the component has been written off at the year end. If after being presented as interrupted operations they are classified as continuous operations, the relevant revenues and expenses are presented under the appropriate accounts based on their nature in both the income statement for the year and in the income statement for the comparative year published in the financial statements.

To test foreclosed properties for impairment, their fair value less costs to sell are compared against their carrying amounts, among other tests. Fair value is determined on the basis of appraisals performed by a range of appraisers, all of which are duly registered with the Bank of Spain.

x) 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) Investing activities which are those activities relating to the acquisition, sale or disposal through other means of long-term assets and other investments not included in cash and cash equivalents, property, plant and equipment, intangible assets, shareholdings, non-current assets and associated liabilities available-for-sale, equity instruments classified as available-for-sale that relate to strategic investments and financial assets included in the held-to-maturity investment portfolio.

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 and deposits at central banks" in the consolidated balance sheets as cash and equivalents.

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

The Promotion and Education Fund is recorded under "Community projects fund" 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.

The Fund's property, plant and equipment is included under Property, plant and equipment and is carried out at restated cost in accordance with the rules described in paragraph (r) above, less the relevant 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 (r) above.

z) 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) Statement of recognized income and expense.

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 revenues and expenses recognized on a transitional basis as measurement adjustments under consolidated equity.

c) The amount of revenues and expenses definitively recognized under consolidated equity.

d) Corporate income tax accrued for the reasons indicated in paragraphs b) and c) above.

e) Total recognized revenues and expenses, calculated as the sum of the aforementioned paragraphs.

Changes in recognized revenues and expenses under consolidated equity as measurement adjustments break down as follows:

a) Measurement gains / (losses): Records the amount of revenues, net of expenses originating during the year, recognized directly under consolidated equity. The amounts recognized during the year under this account are maintained there, even if during that year they are transferred to the consolidated income statement at the initial value of other assets or liabilities or are reclassified to another heading.

b) Amounts transferred to the income statement: Records the amount of measurement gains or losses previously recognized under consolidated equity, even if during the same year, that are recorded in the consolidated income statement.

c) Amounts transferred to initial value of hedged items: Records the amount of measurement gains or losses previously recognized under equity, even if during the same year, at the initial value of the assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: Records the amount of transfers made during the year among measurement adjustment accounts in accordance with the criteria established in current legislation.

The amounts of these headings are presented at gross, reflecting the relevant tax effect under the heading "Corporate income tax" in that statement.

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) Adjustments due to changes in accounting policies and Error adjustments: 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) Revenues and expenses recognized during 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.

aa) 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 acquiree and the equity interests issued by the Entity. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 acquiree 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 acquiree's identifiable net assets.

Acquisition-related costs are expensed as 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 or 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 measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

During 2012 a total of 6,497 files have been opened (2,344 in 2011), of which 6,491 have been processed (2,269 in 2011) and with respect to which the relevant reply has been provided. During 2012 7 case files were not accepted for processing (75 in 2011) due to motives included in the Costumer Ombudsman Rules as causes for rejection of claims or complaints.

	2012	2011
No. files opened		
- In writing: brochure / letter	4,255	929
- Internet	2,097	1,222
- By telephone	5	-
- Public bodies: OMIC / Regional Governments	140	193
	6,497	**2,344**
No. case files processed	**6,491**	**2,269**
Nature of the Files		
- Complaints	1,445	1,160
- Claims	783	866
- Queries	56	113
- Suggestions	11	18
- Letters of congratulations / gratitude	7	11
- Sundry petitions	4,195	176
	6,497	**2,344**

	2012	2011
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	852	295
- Amounts relating to cases for which the decision favoured the Customer	68	50
. Indemnities paid by the Entity	64	40
. Indemnities paid by third parties	3	9
. Amounts returned to customers, recovered by the Entity	1	1
	920	**345**

The case files processed in respect of 'Sundry petitions' include 4,144 cases presented by customers of the Entity in 2012 in order to "Revoke authorisation for use of personal data" formerly extended to the Group's bancassurance operator.

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

	2012	2011
Revocation of personal data usage authorisation	68%	0%
Fees and expenses	13%	32%
Financial Terms	4%	10%
Centralised customer services	6%	20%
Needs coverage	2%	6%
Customer relationship issues	2%	6%
Branches for objective issues	1%	5%
Campaigns in general	1%	3%
Lack of information or inaccurate information	2%	4%
Other	1%	14%
	100%	100%

(Expressed in €' 000)

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

	2012	2011
= < 10 €	0.11%	0.03%
> 10 < = 60 €	0.76%	2.60%
> 60 < = 100 €	0.03%	1.15%
> 100 < = 250 €	0.06%	2.02%
> 250 < = 1,000 €	3.69%	12.46%
> 1,000 €	95.35%	81.74%

With respect to the customer service activity of Seguros Lagun Aro Vida, S.A., 24 complaints and claims were received in 2012 (2011: 28), of which 19 were classified as admissible (2011: 26). 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 2012 and 2011 were as follows:

	2012	2011
In favour of the customer	5	14
In favour of the Entity	13	19
Other	1	1
	19	34

The cost for the Entity of total complaints and claims favourable to customers has amounted to €511 in 2012 (€60,379 in 2011). Complaints and claims have on average been addressed within 12 days (10 days in 2011).

With respect to the Customer Ombudsman Department of Seguros Lagun Aro Vida, S.A., during the year 782 claims and complaints were made (696 in 2011), all of which have been examined. The motives for these claims and complaints are basically delays in handling and disagreement on indemnities.

The results of the enquiries examined, corresponding to enquiries opened in the years 2012 and 2011 are as follows:

	2012	2011
In favour of the customer	337	291
In favour of the Entity	440	450
Other	21	21
	798	762

In total, claims and complaints resolved in favour of the client amount to a cost of €37,738 in 2012 (€29,352 in 2011) for the Group. The average response time was 11 days in 2012 (12 days in 2011).

15. Credit risk

The credit risk is the risk of loss owing to default, in part or in full, by the counterparty on the payments due to the Parent Entity, or late payment. From a management viewpoint, Caja Laboral differentiates between the credit risk deriving from Treasury and Capital Market operations (financial institutions and private equity), and the credit risk with Spanish Public Administrations, Individuals and Companies deriving from traditional investment operations.

With regard to the last mentioned, the Governing Council of the Parent Entity has delegated to General Management of the Parent Entity a level of risk attributions. This General Management, in turn, has established various risk attribution levels in the office network and Central Departments. The sanction capacity of these two levels is ascendant, and a function of the risk level and of a system of alerts that takes into account factors such as the volume of risk, the type of product and the margin on the operation.

In addition, from an organizational standpoint a new Risk Area was created at the start of 2010, which reports to the General Management and integrates the Risk Management, Monitoring, Recovery and Control Departments, which is leading to an increase in the efficiency of admission processes, monitoring and recoveries of credit risk and a deepening of the integral control over the risks faced by the Parent Entity.

The Risk Management Department is responsible for admitting and monitoring portfolios of corporate loans, the Monitoring and Recovery Department is tasked with managing the protocols associated with early default signals on individual loans and maximising recoveries in respect of transactions whose payment is late by < 75 days and those late by > 75 days but not yet subject to legal proceedings, whereas the Risk Control Department is responsible for designing and maintaining IRB models, measuring and controlling structural interest rate and liquidity risks and measuring and controlling market and operational risks.

To evaluate the credit risk associated with its various transactions, Caja Laboral has developed internal models for rating customers and scoring transactions as a function of their risk. Accordingly, when analysing loans to individuals, the reactive loan grant process is underpinned by binding transaction scores, which is complemented by proactive ratings-based models that automatically pre-qualify customers for consumer loans across the various distribution channels. In the corporate segment, meanwhile, loans are granted as a function of a dual analyst/manager scheme; loans are classified into portfolios by customer/analyst and the analysts use IRB and early alert models to support their decision making. The internal risk-based models are therefore a crucial element of the loan grant process and allow the Entity to estimate the amount of expected loss and capital allocated to each transaction for regulatory purposes.

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 models and the rating models allow the Entity to calculate the risk Premium and the pricing of the various Company operations with Individuals.

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.

(Expressed in €' 000)

- 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, pretrial and litigation) act along with external agents.

In the area of credit risk with financial entities and private fixed rate loans in the Treasury and Capital Markets environment, limits for counter-parties are established annually in the course or ordinary business. To this end, a procedure has been established to assign limits based upon external ratings and a system of alerts.

The Entity evaluates, in general, the real guarantee in the form of buildings at their official valuation, having established an updating policy for valuation of buildings that complies with the requirements established by Bank of Spain norms.

The table below shows the breakdown of the Group's customer loan book at 31 December 2012 by counterparty, detailing the amount secured by the various forms of collateral and the distribution by loan-to-value (as a function of the carrying amounts of the secured loans as a percentage of the most recent appraisal valuation available for the collateral):

				Loans secured by real collateral. Loan to value				
	Total (carrying amount)	Of which: property	Of which: other collateral	≤ 40%	≤ 40% ≤l 60%	≤ 60% ≤l 80%	≤ 80% ≤l 100%	> 100%
Government bodies	219,146	10,186	-	2,586	-	2,470	-	5,130
Other financial institutions	508,539	-	-	-	-	-	-	-
Non-financial companies and individual entrepreneurs	3,549,793	1,805,605	93,432	495,899	463,476	396,654	222,049	320,959
– Property construction and development (a)	567,522	498,485	2,188	37,830	86,525	177,308	77,713	121,297
– Public works construction	81,283	15,555	-	3,123	5,082	733	3,578	3,039
– Other purposes	2,868,309	1,291,236	91,244	454,946	371,869	218,284	140,758	196,623
Large corporates	830,469	159,502	57,916	41,637	6,252	19,388	59,847	90,294
SMEs and individual entrepreneurs	2,037,840	1,131,734	33,328	413,309	365,617	198,896	80,911	106,329
Other households and NPISHs	12,496,776	11,812,078	62,574	2,708,393	3,162,103	4,132,434	1,643,815	227,907
– Home mortgages	11,644,653	11,356,237	52,618	2,551,741	3,029,126	4,012,355	1,601,970	213,663
– Consumer loans	339,619	166,857	2,759	46,001	48,108	56,255	17,932	1,320
– Other	512,504	288,984	7,197	110,651	84,869	63,824	23,913	12,924
Less: Asset impairment losses not allocated to specific transactions	(271,890)	-	-	-	-	-	-	-
TOTAL	16,469,685	13,627,540	156,006	3,206,878	3,625,579	4,531,229	1,865,864	553,996
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	1,033,480	831,952	70,125	152,356	161,308	217,997	146,317	224,099

(a) This heading encompasses all activities related to the construction and development of real estate, including loans to finance the purchase of land for property development purposes.

(Expressed in €' 000)

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A breakdown of the maximum credit risk covered by each of the primary guarantees and 31 December 2012 and 2011 is set out below:

	2012							
	Real estate guarantee	**Pledge guarantee**	**Other real guarantees**	**Secured or insured personal guarantee**	**Unsecured personal guarantee**	**Unclassified**	**Measurement adjustments**	**Total**
Customer loans								
Drawn down	11,358,619	29,409	832,101	680,170	2,680,183	1,890,822	(968,940)	16,502,364
Value of the guarantee	28,918,333	30,697	2,694,356	680,170	4,845	-	-	32,328,401

	2011							
	Real estate guarantee	**Pledge guarantee**	**Other real guarantees**	**Secured or insured personal guarantee**	**Unsecured personal guarantee**	**Unclassified**	**Measurement adjustments**	**Total**
Customer loans								
Drawn down	11,791,599	29,852	904,787	771,075	2,134,054	(125,358)	(347,242)	15,158,767
Value of the guarantee	29,490,116	27,448	2,848,065	771,075	4,139	-	-	33,140,843

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) The exposure to the construction and real estate promotion sector.

Financing destined to construction and real estate and coverage at 31 December 2011 and 2010 was as follows:

	2012		
	Gross amount	**Surplus over guarantee amount**	**Corrections for asset impairment. Specific coverage**
Financing to construction and real estate promotion (business in Spain)	**939,426**	**416,443**	**467,148**
Of which, doubtful	596,358	281,303	334,386
Of which, substandard	125,444	47,836	37,623
For Notes:			
Failed assets	115,018		

For Notes:	**Valor contable**
- Total credit to clients, excluding government bodies (business in Spain)	16,250,539
- Total asset (total businesses)	24,973,384
- Total Complimentary coverage (total businesses)	187,338

(Expressed in €' 000)

	2011		
	Gross amount	Surplus over guarantee amount	Corrections for asset impairment. Specific coverage
Financing to construction and real estate promotion (business in Spain)	**957,887**	**482,220**	**167,177**
Of which, doubtful	700,785	395,008	167,177
Of which, substandard	63,057	28,643	-
For Notes:			
Failed assets	55,709		

For Notes:	Carrying amount
- Total credit to clients, excluding government bodies (business in Spain)	14,925,377
- Total asset (total businesses)	21,462,423
- Total Complimentary coverage (total businesses)	46,219

The following is a breakdown of financing for construction, real estate promotion and home purchase at 31 December 2012 and 2011:

	Financing to construction and real estate promotion. Gross amount	
	2012	2011
Without mortgage guarantee	101,981	99,593
With mortgage guarantee	837,445	858,294
Finished buildings	336,827	256,420
Homes	280,870	233,955
Others	55,957	22,465
Buildings under construction	121,701	133,445
Homes	120,033	131,511
Others	1,668	1,934
Land	378,917	468,429
Developed land	105,052	125,391
Other land	273,865	343,038
Total	939,426	957,887

The breakdown of credit to households for home purchase at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Gross amount	Of which, doubtful	Gross amount	Of which, doubtful
Credit for home purchase	11,669,884	221,785	10,481,158	149,993
Without mortgage guarantee	279,091	3,311	302,449	3,005
With mortgage guarantee	11,390,793	218,474	10,178,709	146,988

(Expressed in €' 000)

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 2012 and 2011 is as follows:

	Risk over the latest official valuation available *(loan to value)*					
	2012					
	Less or equal to 40 %	Exceeding 40 % and lower or equal to 60 %	Exceeding 60 % and lower or equal to 80 %	Exceeding 0 % and lower or equal to 100 %	exceeding 100 %	Total
Gross amount	2,444,070	3,017,272	4,072,123	1,603,616	253,712	11,390,793
Of which, doubtful	9,541	21,306	38,065	60,935	88,627	218,474

	Risk over the latest official valuation available *(loan to value)*					
	2011					
	Less or equal to 40 %	Exceeding 40 % and lower or equal to 60 %	Exceeding 60 % and lower or equal to 80 %	Exceeding 0 % and lower or equal to 100 %	exceeding 100 %	Total
Gross amount	2,131,661	2,607,542	3,574,969	1,628,499	236,038	10,178,709
Of which, doubtful	5,229	11,997	25,359	52,686	51,717	146,988

The breakdown of assets received in payment of debt at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Carrying amount	*Of which:* Corrections for asset impairments	Carrying amount (*)	*Of which:* Corrections for asset impairments (*)
Real estate assets from financing to construction and real estate promotion companies	**286,505**	**261,758**	**345,190**	**58,440**
Finished buildings	55,915	37,067	55,721	2,022
Homes	47,835	35,482	51,801	1,995
others	8,080	1,585	3,920	27
Buildings under construction	50,544	22,741	53,411	5,799
Homes	50,544	22,741	53,411	5,799
Others	-	-	-	-
Land	180,046	201,950	236,058	50,619
Developed land	36,286	50,300	64,285	9,412
Other land	143,760	151,650	171,773	41,207
Real estate assets from mortgage financing to households for home purchase	**21,336**	**1,808**	**19,383**	**863**
Other real estate assets received in payment for debt	**7,061**	**721**	**948**	**1,329**
Capital instruments, participations and financing to the companies holding these assets	**-**	**-**	**-**	**-**
Total	**314,902**	**264,287**	**365,521**	**60,632**

Management of problematic risk in the Promotion Sector

Prior considerations

The Group's current policy is very restrictive and is aimed at not increasing the expected overall loss in this investment segment and at an individual client level because of the high degree of uncertainty of market price developments in the assets financed and the surplus offer.

The decision not to increase the expected loss in credit level implies:

i. Not financing new Project presented by our clients unless these imply a reduction in other projects.

ii. Adopt solutions of an equity nature (purchase of assets) in financing requests for development or building start-up where the project does not have real prospects of being solved through commercialisation.

The process of follow-up and recovery with problematic clients

The criteria being applied in managing problematic situations with promoters are as follows:

In debt restructuring, the criteria is to reduce the financing or to provide additional effective guarantees (finished homes, cash or a effective backing) with the aim of achieving a 50% LTV ratio.

This means that re-financing without effective guarantees or a risk reduction is not available, although restructuring the debt to a 5-year term with a repayment calendar of the loan can be available for solvent clients with the capacity to repay the debt.

All restructuring must necessarily comply with some of the following conditions to avoid classification of the client as doubtful:

- First priority is structural financing with an initial reduction of the debt to a significant extent (to reach an LTV ratio of 50%) and deferral of the balance (up to 5 years) with a repayment calendar.

- If the initial reduction is not possible, structural financing with a repayment calendar of up to 5 years, providing additional effective guarantees not related to the project (Finished home, deposits, multi-valent premises…) to arrive at a mínimum LTV ration of 50% of the debt.

In relation to problematic assets from the financing of the real estate construction and promotion, differentiated policies are established if dealing with a finished home, a home in the construction phase or land.

With finished homes, the policy in the short and medium-term centres on an intensive commercialisation plan, supported by the collaboration of internal and external agents, with a close follow-up of the results obtained and with a local adaptation in the pricing policy, conditioned by the levels of demand existing, by the selling prices established by other offers and by the evolution of the active inventory of homes.

When dealing with homes under construction, viability studies are undertaken to allow the identification of those projects whose development in the short-term present positive results or that allow the minimisation of the negative results that would occur if it is not developed. When the viability study gives unfavourable results the project is hibernated, while waiting for changes in the market situation that would allow a new reconsideration of the operation, without rejecting possible sales, assuming the capital losses generated, based upon an individualised analysis of each operation.

Finally, in relation to land, and given the practically zero transaction activity, except those derived from situation of unpaid financing, the short-term policy centres on the selective admission of land and the strict compliance to the documentary and legal requirements needed to allow an agile and efficient future access to the various divestment routes that can be considered applicable, undertaking, as the case may be, those urbanisation developments that offer a better final financial result.

The medium and long-term policy centres on the sale of the land, assuming, when necessary, the capital reductions derived from the loss of value compared to the purchase price, without discounting the development of those projects in which the economic viability so suggests, after analysing and selecting the various land application alternatives in each case.

In keeping with the provisions of Law 8/2012 of 31 December 2012, the Group holds real estate assets deriving from its loans to builders and developers in various asset management companies, the details of which, along with the related ownership interests, are listed in Appendix I of the notes to the accompanying consolidated financial statements.

The foreclosure value as of 31 December 2012 of the assets held by those companies amounts to €763,155k. At 31 December 2012, the amount of financing and equity injected into those companies amounted to €790,741k and €35,103k, respectively; the related impairment charges total €461,112k and €34,107k, respectively.

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 area (specifically the Risk Monitoring and Recovery Department).

The classification and possible impairment of restructured loans depends on the starting situation:

- Fully-performing transactions: these loans are classified as loans under 'special monitoring' unless they are within a grace period or payable in annual instalments, in which case they are classified as doubtful with an initial loan-loss provision of 25%.

- Transactions past due by less than 90 days: these are classified as doubtful with an initial loan-loss provision of 25%.

(Expressed in €' 000)

- Transactions already classified as doubtful: the restructuring of a non-performing loan does not automatically change its status. However, it can be reclassified to 'normal' risk if two conditions are met:

  - Outstanding ordinary interest payments are settled; and

  - Performance is certain or new collateral is provided to secure the loan whose value covers 100% of the amount of the loan.

  Otherwise, these loans will continue to be classified as non-performing even if their non-performance is addressed by the restructuring. The related loan-loss provision will be increased on the restructuring date with respect to that already recorded.

The Monitoring and Recoveries Department monitors these transactions and checks their performance monthly in order to review their classifications and the related provision schedules, as warranted.

In compliance with the amendments introduced by Circular 6/2012, of 28 September, 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 at 31 December 2012 of refinancing, refinanced and restructured transactions:

	NORMAL						SUB-STANDARD							DOUBTFUL							TOTAL		
	Mortgage guarantee		Other collateral		Unsecured		Mortgage guarantee		Other collateral		Unsecured		Specific provisions	Mortgage guarantee		Other collateral		Unsecured		Specific provisions			
	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount		No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount		No. of transactions	Gross amount	Specific provisions
1. Government bodies	-	-	-	-	9	6,288	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	6,288	-
2. Other legal persons and individual entrepreneurs	871	149,227	156	81,923	1,508	86,903	44	56,621	26	111,955	10	26,683	45,157	376	284,057	291	260,165	388	36,400	322,844	3,670	1,093,934	368,001
Of which: Construction and development loans	34	41,442	7	3,867	1	250	43	56,262	14	17,906	2	18,962	25,968	193	261,731	124	217,428	13	17,165	281,173	431	635,013	307,141
3. Other physical persons	2,352	215,689	506	23,349	1,289	12,948	-	-	1	4	-	-	-	554	42,464	339	16,455	686	5,673	16,822	5,727	316,582	16,822
4. Total	**3,223**	**364,916**	**662**	**105,272**	**2,806**	**106,139**	**44**	**56,621**	**27**	**111,959**	**10**	**26,683**	**45,157**	**930**	**326,521**	**630**	**276,620**	**1,074**	**42,073**	**339,666**	**9,406**	**1,416,804**	**384,823**

The next table shows the breakdown at year-end 2012 of the gross amounts of transactions classified as doubtful during the year subsequent to their refinancing or restructuring:

	2012		
	Gross amount		
	Mortgage guarantee	Other collateral	Unsecured
Government bodies	-	-	-
Other legal persons and individual entrepreneurs	141,778	122,914	12,210
Of which: Construction and development loans	*135,183*	*96,945*	*6,982*
Other physical persons	17,009	5,570	1,643

c) Regulatory requirements arising as part of the restructuring and recapitalisation of the Spanish financial system

In 2012 the Spanish government launched a raft of structural reforms with a view to restoring confidence in the Spanish financial system. These reforms included the publication of the following pieces of legislation which imply more stringent regulatory requirements, particularly with respect to properties and loans earmarked for the property construction and development segments:

- Royal Decree 2/2012 (3 February) which affects real estate loans and foreclosed properties.

- Royal Decree-Law 18/2012 (11 May) and Law 8/2012 (30 October) which specifically affect loans to fund real estate activities that are classified as 'normal' risk.

The consequences of these successive pieces of legislation were incorporated in to specific plans, as stipulated in the legislation itself, that were drawn up by the Caja Laboral Group and detail the measures it plans to take to meet the new regulatory requirements; these plans have been approved by the Bank of Spain.

In addition, in light of the prevailing economic climate, in 2012 the Spanish government took far-reaching fiscal consolidation measures and engaged an external consultant to perform an independent valuation of the main Spanish banks' assets. As a result of this stress-testing exercise, the weaker banks were recapitalised, sold and/or restructured as warranted, a process that required financial assistance from Europe.

All of the foregoing had an adverse affect on the realisation value of the collateral put up by the Group's creditors to secure the various loans extended and on the trend in the market value of the Group's real estate loans and foreclosed properties, triggering the need for higher loan loss provisions.

As a general rule, Spanish credit institutions were given until 31 December 2012 to comply with these legal provisions. Against this backdrop, as indicated in note 2.1 "Basis of presentation of the consolidated financial statements – Fair presentation", the accompanying consolidated annual financial statements were prepared in keeping with the provisions of the International Financial Reporting Standards adopted by the European Union in relation to measurement of assets, liabilities and contingent liabilities and to estimated incurred loss at the time of preparing the accompanying annual consolidated financial statements.

At 31 December 2012, the Entity was in full compliance with the regulatory requirements laid down in the abovementioned pieces of legislation.

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 Group has always considered liquidity as a strategic objective and has maintained systematic management and control of this during the last two decades. This has allowed us to successfully manage the international liquidity crisis originated from the sub-prime loans in the United States, which has become one of the principle problems of financial entities since 2008.

In this context, Caja Laboral has a Policies and Procedures Manual for Liquidity Risk approved by the Governing Council, which, among other things, establishes various liquidity objectives along with a Contingencies Plan that includes alert levels and action protocols. In this area, liquidity management is supported by a control system that, both establishes monthly liquidity objectives, and performs a systematic monitoring of the degree of compliance with these objectives. These objectives are included in a treasury plan that gathers forecasts of the evolution of investment resources, credit investment and wholesale financing, as well as on the evolution of certain ratios, and is updated monthly, allowing the Entity to avail of permanently up-to-date information on the foreseeable evolution of liquidity on the medium-term. This allows the Entity to establish sufficiently in advance the actions needed to correct possible imbalances in the evolution of the mix that affect liquidity. Included in the liquidity objectives, are the liquid assets available as well as various liquidity ratios. At the close of 2012 the Entity had:

- (Undrawn) liquid assets that can be discounted at the European Central Bank (ECB) in the amount of €2,675 million (after haircuts) for covering unforeseen contingencies. Of this balance, €1,195 billion can be drawn in the form of ECB policies and €1,480 million are eligible ECB collateral that can be monetised if pledged. The Parent Entity held positive liquidity balances throughout the year, having drawn €3,100 million from the ECB's LTRO auctions.

- The deposit-to-loan ratio (deposits excluding covered bonds and securitisations and loans excluding securitisations) stood at over 85% at year-end 2012.

- Wholesale Financing in which the Entity has followed a prudent policy;

    - With an amount of €6,870 million, which represents 28.2% of the total balance. From this amount Bonds for the portfolio of repurchased stock and securitisations have been excluded, since there is no need for refinancing on the market.

- o Diversification in the sources of financing. Thus, at 31 December 201, Caja Laboral held Mortgage Bonds issues (excluding own shares held) amounting to €3,425 million (Note 36), and €3,100 million in deposits in the ECB. Additionally, the Entity avails of financing on the market through securitisation of mortgage bonds (discounting the tranches purchased by the entity itself) amounting to €345 million (Note 36).

- o Diversified in terms of due dates. Thus, the due dates of financing by the EBC occur in 2015, while those of the Mortgage Bonds occur from 2013 onwards, and in a diversified manner.

The Parent Entity's financing structure is breakdown as follow:

	2012		2011	
Financing structure	**Euro millions**	**%**	**Euro millions**	**%**
Client deposits	12,062	48.30	12,345	57.52
Mortgage bonds (1)	3,425	13.73	3,225	15.03
Securitisation (1)	345	1.38	406	1.89
Total Assets	24,973	63.42	21,462	74.44

(1) Excluding own repurchased portfolio,

In the distribution by maturity dates of the wholesale financing we would highlight that 95.63% of the due dates occur from 2013 onwards in line with the following breakdown:

	Euro millions			
Maturity of Wholesale Issues	**2013**	**2014**	**2015**	**>2015**
Mortgage Bonds	300	700	600	1,825
Territorial Bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	-	-	-	345
Taken from ECB	-	-	3,100	-
	300	700	3,700	2,170

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:

	Euro millions	
	31.12.2012	
	Dispossed	**Available**
Net Liquid assets (2)	3,100	1,195

(2) Criteria of the Bank of Spain liquidity statements (excluding equity instruments)

Issue Capacity	Euro millions
Issue capacity in Mortgage Bonds	1,895
Issue capacity in Territorial Bonds	170
Disposable in issues guaranteed by the State	-
	2,065

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):

2012

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Million Euro							
	Total balance	**On demand**	**After following day to1 month**	**More than 1 month to 3 months**	**More than 3 months to 6 months**	**More than 6 months to 1 year**	**More than 1 year to 5 years**	**More than 5 years**
TOTAL cash inflows	23,124	16	1,776	689	385	676	8,744	10,838
TOTAL cash outflows	(23,199)	(8,447)	(605)	(972)	(1,325)	(2,198)	(8,039)	(1,613)
Net	(75)	(8,431)	1,171	(283)	(940)	(1,522)	705	9,225

2011

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Million Euro							
	Total balance	**On demand**	**After following day to1 month**	**More than 1 month to 3 months**	**More than 3 months to 6 months**	**More than 6 months to 1 year**	**More than 1 year to 5 years**	**More than 5 years**
TOTAL cash inflows	17,315	113	193	514	410	625	5,963	9,497
TOTAL cash outflows	(17,897)	(6,598)	(824)	(924)	(1,193)	(2,035)	(5,075)	(1,248)
Net	(582)	(6,485)	(631)	(410)	(783)	(1,410)	888	8,249

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 Parent Entity's Governing Body has delegated to the Asset and Liability Committee 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 Asset and Liability Committee 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

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.

	Euros millons								
	Balance sheet balance at 31.12.12	**Up to 1 month**	**Between 1 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	20,568	4,596	3,203	6,031	2,576	3,179	392	97	494
Money market	962	841	57	65	-	-	-	-	-
Credit market	14,364	3,288	3,340	6,032	578	405	200	91	430
Securities market	5,242	467	(194)	(66)	1,998	2,774	192	6	64
Sensitive liabilities	20,453	2,843	3,651	6,657	3,099	2,746	681	652	123
Money market	664	442	104	79	17	14	4	1	2
Creditors	19,789	2,401	3,547	6,578	3,082	2,732	677	651	121
Simple GAP		1,753	(448)	(626)	(523)	433	(289)	(555)	371
% of total liabilities		9%	(2%)	(3%)	(3%)	2%	(1%)	(3%)	2%
Cumulative GAP		1,753	1,305	679	156	589	300	(255)	116
% of total liabilities		9%	6%	3%	1%	3%	1%	(1)%	1%

	Euros millons								
	Balance sheet balance at 31.12.11	**Up to 1 month**	**Between 1 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	19,781	4,349	4,103	6,637	1,662	1,703	319	271	737
Money market	259	197	21	41	-	-	-	-	-
Credit market	15,937	3,519	3,750	6,384	542	609	212	235	686
Securities market	3,585	633	332	212	1,120	1,094	107	36	51
Sensitive liabilities	19,022	2,840	4,532	6,288	2,247	1,555	1,156	622	(223)
Money market	735	439	109	169	2	2	3	3	3
Creditors	18,287	2,401	4,423	6,119	2,245	1,553	1,153	619	(226)
Simple GAP		1,509	(429)	350	(585)	148	(837)	(351)	960
% of total liabilities		8%	(2%)	2%	(3%)	1%	(4%)	(2%)	5%
Cumulative GAP		1,509	1,080	1,430	845	993	156	(195)	765
% of total liabilities		8%	6%	8%	4%	5%	1%	(1%)	4%

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.

In accordance with the impact analyses carried out by the Parent Entity, a fall of 200 basis points in interest rates would generate a decrease of approximately 2.96% in gross revenue over the first year. These analyses are based on a simulation technique which is based on the information concerning the transactions that form part of the current balance sheet and the forecast information on balance sheet growth, the policy for arranging new transactions, the margin policy and situations of early redemption. Forecasts are generated on the basis of strategic and management plans and the monthly follow-up of the business.

In terms of the impact on the economic value of equity, a 200 basis point increase in interest rates would decrease the Entity's economic value by €93 million, roughly 6.87% of own funds (capital and reserves). 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

Financial market events hit the headlines regularly in 2012 due to the sovereign debt crisis along the eurozone periphery.

The year got off to a remarkably strong start, with spreads narrowing on a widespread basis due to the carry trade spearheaded mainly by the Spanish financial institutions and facilitated by two 3-year LTRO auctions by the ECB which injected liquidity in January and February.

From March on the markets began to question the sustainability of Spain's debt in light of the difficulties being encountered in keeping the public deficit within the targeted limits due to pressure deriving from substantial deficit overstepping at the regional government level coupled with a financial system that was increasingly requiring greater and more costly interventions and a clearly recessionary economic backdrop.

In this context, the wholesale funding markets began to shut down firstly for the financial institutions, obliging them to increasingly rely on the ECB for funding, and later for the Treasury, which saw the number of investors - demanding increasingly higher yields - at its auctions dwindle.

This situation gave way to a vicious circle which began to spiral out of control in July, when Treasury bond yields reached 7% across nearly all terms, the threshold for bailout. Contagion spread to Italy (albeit to a lesser extent) and the market began to question the viability of the euro and, by extension, the entire European endeavour, based on the judgement that it would be impossible to bail out Spain and Italy on account of the size of their economies relative to the European funds in place at the time.

This is when the ECB came front stage. After the speech in which Draghi spoke his now famous words *"... and believe me, it will be enough"*, in reference to the measures promised by the ECB to tackle the sovereign debt crisis, the markets hit an inflection point and the dramatic rise in yields began to reverse, a trend that accelerated when the ECB announced plans to buy back bonds with maturities of up to three years of applicant issuer nations (outright monetary transactions) and the Spanish government announced that it had applied for a bank sector bailout from the European authorities.

Peripheral sovereign issuers saw their yields correct with intensity to 'sustainable' levels between the summer and the end of the year, while the wholesale markets reopened to the Treasuries, with the rest of the markets 'normalising' as a result. Systemic risk of a euro break-up all but vanished.

The macroeconomic panorama was marked by geographic disparity. It is possible to distinguish three well-differentiated geographic regions in terms of economic performance: Europe, the US and China.

In Europe, the orthodox economic policies imposed by the core European nations translated into the implementation of public spending austerity measures (in order to reign in sizeable budget deficits) which ultimately eroded national demand and triggered recession in most countries in the region.

In the US the more 'pragmatic' approach taken by the authorities meant tolerance for higher deficit levels, paving the way for delivery of more reasonable GDP growth rates (around 2%). That being said, this approach implies tough negotiations for 2013 as to how to cut the deficit going forward.

Lastly, in China the much-feared hard landing did not materialise, with the economy posting growth of over 7% and the impression that more dynamic growth would once again take hold in the years to come.

Against this backdrop, the various risk asset classes were highly volatile all year, although most equity markets managed to end the year higher, with some stock indices, such as the Nikkei (> 22%), S&P 500 and Eurostoxx 50 (gains of > 13%) registering sharp gains. Spain's benchmark index, the Ibex, was one of the notable underperformers, correcting by more than 4%.

The credit markets performed well once again, with the higher-beta (lower credit quality) indices outperforming on a relative basis.

Lastly, the public debt markets also delivered positive returns, albeit far more modest than in 2011 in the case of core nation issuers.

As a result, the securities classified by the Group as available for sale performed well, as is evident in the net fair value gains recognised within measurement adjustments in equity.

19. Insurance operation risk

It is the risk of incurring in losses to insufficient or procedures human resources and internal systems or external events.

Caja Laboral meets its regulatory reporting obligations using the standard method established by Circular 3/2008 and its later modifications.

At the qualitative level the Entity has risk maps for all Departments, as well as general and specific risk indicators (KRIs). On an annual basis the Entity self-evaluates the risks in all Departments and then launches action plans to mitigate the most critical risks.

The Parent Entity has a network of 62 coordinators and 28 operational risk validators who perform the duties required by the system (self-evaluation, risk indicators and action plans). In December 2012 the second self-evaluation is being completed, after which new action plans will be launched.

On a quantitative level, the Parent Entity has an internal operational loss database since 2002. Each loss is assigned to a type of event and a line of business, as defined by Bank of Spain Circular 3/2008.

Furthermore, Caja Laboral pertains to Grupo CERO (Consorcio Español de Riesgo Operacional), of which the main financial institutions in Spain are members and through which operational risk information and experiences are shared.

Additionally, Caja Laboral 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. Under applicable regulations, the GKM/F95 tables are currently applicable.

In the case of income insurance, longevity risk is a factor that could cause a significant rise in losses due to increasing life expectancy, particularly in lifetime or long-term annuities. In accordance with the regulations of the Directorate General for Insurance, the Group has applied the PERM/F-2000 tables to new production since 15 October 2000. The shortfall in the portfolio of policies in force at the date on which the tables were applied was absorbed in 2007, even though regulations stipulated 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 policies in force that were issued after the Regulations took effect, the Group has used – every year - a technical interest rate for calculating the mathematical provision equal to or lower than the maximum interest rate set annually by the Directorate General for Insurance. In this respect, the Group avails of the provisions laid down in article 33.1 of the Regulations, assigning a portfolio and financial investments to this class 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 methods established in the oversight regulations governing private insurance activities are used to calculate the provision for unreported claims.

21. Risk concentration

In accordance with Bank of Spain Circular 3/2008 on equity and latter modifications, as it relates to large risks (defined as those which exceed 10% of equity) no exposure to a person or group may exceed 25% of equity, except for those risks deducted from computable equity due to exceeding the limits of large risks. Moreover, major risks taken as a whole may not exceed an amount equal to eight times equity. The Group's risk concentration policy takes the aforementioned limits into account and risk limits have been established by counter-party which are consistent with such requirements and procedures for controlling exceeded limits.

No counterparty qualifies as 'major risk' (exposure of over 10% of own funds) at 31 December 2012.

(Expressed in €' 000)

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 2012, are as follows:

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of world
Credit institutions	2,692,509	1,911,732	769,377	3,677	7,723
Government bodies	2,069,233	2,069,233	-	-	-
– Central government	1,671,719	1,671,719	-	-	-
– Other levels of government	397,514	397,514	-	-	-
Other financial institutions	2,314,821	1,826,723	448,329	39,769	-
Non-financial corporates and individual entrepreneurs	3,999,609	3,966,117	31,412	1,996	84
– Property construction and development	686,906	686,906	-	-	-
– Public works construction	103,340	102,005	1,335	-	-
– Other purposes	3,209,363	3,177,206	30,077	1,996	84
Large corporates	1,063,855	1,036,156	27,699	-	-
SMEs and individual entrepreneurs	2,145,508	2,141,050	2,378	1,996	84
Other households and NPISHs	12,516,778	12,499,493	14,909	1,515	861
– Home mortgages	11,644,937	11,628,566	14,087	1,479	805
– Consumer loans	339,817	339,564	168	36	49
– Other	532,024	531,363	654	-	7
Less: Asset impairment losses not allocated to specific transactions	(282,476)	-	-	-	-
TOTAL	23,310,474	22,273,298	1,264,027	46,957	8,668

(a) The definition of risk includes the following balance sheet headings: deposits at credit institutions, customer loans, debt securities, trading derivatives, hedging derivatives, investments and contingent assets.

The geographic breakdown is made as a function of the country or Spanish regional government of residency of the borrower, securities issuer and counterparties to derivatives and contingent assets.

(Expressed in €' 000)

	REGIONAL GOVERNMENTS OF SPAIN				
Business in Spain	**Total (Carrying amount) (a)**	**Basque region**	**Navarra**	**Madrid**	**Other**
Credit institutions	1,911,732	76,007	-	1,757,043	78,682
Government bodies	2,069,233	152,142	84,014	138,873	1,694,204
— Central government	1,671,719	-	-	-	1,671,719
— Other	397,514	152,142	84,014	138,873	22,485
Other financial institutions	1,826,723	134,323	203	1,691,867	330
Non-financial corporates and individual entrepreneurs	3,966,117	2,628,673	497,693	284,230	555,521
— Property construction and development	686,906	424,267	100,867	46,801	114,971
— Public works construction	102,005	52,667	8,234	37,855	3,249
— Other purposes	3,177,206	2,151,739	388,592	199,574	437,301
Large corporates	1,036,156	770,800	68,269	115,920	81,167
SMEs and individual entrepreneurs	2,141,050	1,380,939	320,323	83,654	356,134
Other households and NPISHs	12,499,493	7,398,294	1,545,720	286,100	3,269,379
— Home mortgages	11,628,566	6,747,262	1,458,308	275,558	3,147,438
— Consumer loans	339,564	269,056	25,351	3,980	41,177
— Other	531,363	381,976	62,061	6,562	80,764
Less: Asset impairment losses not allocated to specific transactions	(281,949)	-	-	-	-
TOTAL	21,991,349	10,389,439	2,127,630	4,158,113	5,598,116

(a) The definition of risk includes the following balance sheet headings: deposits at credit institutions, customer loans, debt securities, trading derivatives, hedging derivatives, investments and contingent assets.

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 €' 000)

22. Cash on hand and on deposit at central banks

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Cash	81,442	79,541
Deposits at Bank of Spain	273,333	104,997
Other deposits	273,333	104,997
Measurement adjustments	53	109
Interest accrued	53	109
	354,828	184,647
By currency:		
In euro	353,713	183,917
In dollars	547	379
In Swiss francs	347	44
In pounds sterling	18	251
In Japanese yen	80	24
Other	123	32
	354,828	184,647

The average rate of interest per annum in 2012 and 2011 on Deposits at the Bank of Spain amounted to 1% in both years.

In accordance with European Central Bank Regulation (EC) 1745/2008 Credit Institutions in Member States of the European Union must comply with a minimum reserve coefficient of 2% of computable liabilities, as calculated in accordance with that Regulation. At 31 December 2012 and 2011, Caja Laboral met the minimum requirements established for this coefficient by current legislation.

23. Asset and liability trading portfolio

Set out below is a breakdown of these headings in the consolidated balance sheet at 31 December 2012 and 2011:

	Assets		Liabilities	
	2012	2011	2012	2011
Debt securities	127,545	106,150	-	-
Equity instruments	-	-	-	-
Derivatives held for trading	7,551	12,397	12,505	20,241
	135,096	118,547	12,505	20,241

The fair value of the items included in the asset and liability trading portfolio at 31 December 2012 and 2011, as well as the measurement techniques applied, are set out in Note 44.

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The effect on the consolidated income statements for the years ended 31 December 2012 and 2011 of changes in the fair value of items included in the Assets and liabilities trading portfolio is as follows (Note 53):

	Gains		Losses	
	2012	2011	2012	2011
Debt securities	18,135	4,522	17,190	3,453
Equity instruments	5,722	22,807	10,103	8,397
Derivatives held for trading	22,519	185,450	18,222	200,036
	46,376	212,779	45,515	211,886

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2012 and 2011 resulting from changes in fair value of the asset and liability trading portfolio is as follows:

	Gains		Losses	
	2012	2011	2012	2011
Items whose fair value is:				
Calculated taking as a reference				
Quotes (Level 1)	23,083	22,177	28,980	27,042
Estimated through a measurement				
technique based on:				
Data supplied by the market (Level 2)	23,293	190,602	16,535	184,844
Data not supplied by the market (Level 3)	-	-	-	-
	46,376	212,779	45,515	211,886

The breakdown by currency and maturity of the asset and liability trading portfolio headings of the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	Assets		Liabilities	
	2012	2011	2012	2011
By currency:				
In euro	135,096	118,547	12,505	20,241
	135,096	118,547	12,505	20,241
By maturity:				
Up to 1 month	1,577	308	1,900	5,997
Between 1 month and 3 months	105	5,445	1,483	307
Between 3 months and 1 year	2,433	1,474	4,381	2,009
Between 1 and 5 years	99,951	101,455	4,543	11,813
Over 5 years	31,030	9,865	198	115
No set maturity	-	-	-	-
	135,096	118,547	12,505	20,241

(Expressed in €' 000)

a) Credit risk

Set out below is an analysis of credit risk concentrations by geographical sector in which the risk is located, counter-party categories, and instrument types, indicating book value at the dates in question:

	2012		2011	
	Amount	**%**	**Amount**	**%**
By geographical sector:				
Spain	133,702	98.97%	116,909	98.62%
Other European Union countries	1,394	1.03%	1,638	1.38%
Rest of the world	-	-	-	-
	135,096	100.00%	118,547	100.00%
By counter-party categories:				
Credit institutions	36,963	27.36%	28,759	24.26%
Resident Public Administrations	93,089	68.91%	85,617	72.22%
Other resident sectors	5,044	3.73%	4,171	3.52%
Other non-resident sectors	-	-	-	-
	135,096	100.00%	118,547	100.00%
By instrument types:				
Listed bonds and debentures	126,334	93.52%	85,617	72.22%
Other fixed – income securities	1,211	0.90%	20,533	17.32%
Derivatives not traded on organised Markets	7,551	5.58%	12,397	10.46%
Listed shares	-	-	-	-
	135,096	100.00%	118,547	100.00%

A breakdown of the assets Trading portfolio based on external credit ratings assigned by the main rating agencies is as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Risks rated A	457	0.34%	110,767	93.44%
Risks rated B	129,595	95.93%	6,675	5.63%
Amounts not rated	5,044	3.73%	1,105	0.93%
	135,096	100.00%	118,547	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2012 and 2011 break down as follows:

	2012	**2011**
Spanish government debt securities	33,248	-
Instituto de Crédito Oficial	93,086	85,617
Other fixed – income securities	1,211	20,533
	127,545	106,150

The average rate of interest per annum on debt securities during 2012 was 4.46% (3.93% in 2011).

(Expressed in €' 000)

c) Equity instruments

As of 31 December 2012 and 2011 there are no equity instruments classified in the trading portfolio.

d) Derivatives held for trading

Derivatives held for trading under assets and liabilities on the consolidated balance sheets at 31 December 2012 and 2011 break down as follows:

	2012		
	Notional value	Fair value	
		Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	84,234	4	2,134
Sales	118,214	2,090	18
Financial and interest rate forwards			
Purchased	-	-	-
Sold	-	-	-
Securities options			
Purchased	12,150	463	-
Sold	1,459,478	-	4,125
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	15,900	80	-
Sold	47,900	-	86
Other interest rate operations			
FRAs	-	-	-
Rate swaps	98,343	2,807	2,726
Call Money Swap (CMS)	-	-	-
Other	396,176	2,107	3,416
		7,551	12,505

	2011		
	Notional value	Fair value	
		Assets	Liabilities
Unmatured currency purchases-sales			
Purchases	109,260	4,193	27
Sales	133,469	3	7,739
Financial and interest rate forwards			
Purchased	-	-	-
Sold	-	-	-
Securities options			
Purchased	43,350	275	-
Sold	1,047,809	-	3,527
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest-rate options			
Purchased	16,303	32	-
Sold	64,303	-	40
Other interest rate operations			
FRAs	-	-	-
Rate swaps	95,436	2,405	2,299
Call Money Swaps (CMS)	100,000	-	390
Other	340,770	5,489	6,219
		12,397	20,241

(Expressed in €' 000)

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.

24. Other financial assets and liabilities at fair value through profit and loss

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	Assets		Liabilities	
	2012	2011	2012	2011
Debt securities	15,030	25,005	-	-
Equity instruments	920	900	-	-
	15,950	25,905	-	-

The fair value of the items included in this category at 31 December 2012 and 2011, as well as the measurement techniques applied, are set out in Note 44.

The effect on the consolidated income statement for the years ended 31 December 2012 and 2011 resulting from changes in the the fair value of the items recorded as assets and liabilities at fair value through changes in profit and loss, is as follows:

	Gains		Losses	
	2012	2011	2012	2011
Debt securities	4,029	4,816	2,633	7,815
Others equity instruments	155	30	28	225
	4,184	4,846	2,661	8,040

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2012 and 2011, 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	
	2012	2011	2012	2011
Items whose fair value is:				
Calculated taking as a reference Quotes (Level 1)	2,611	1,994	525	4,296
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	324	586	61	503
Data not supplied by the market (Level 3)	1,249	2,266	2,075	3,241
	4,184	4,846	2,661	8,040

(Expressed in €' 000)

The breakdown of the headings Other assets and liabilities at fair value through changes in profit and loss in the consolidated balance sheets at 31 December 2012 and 2011, by currency and maturity date, is as follows:

	Assets		Liabilities	
	2012	**2011**	**2012**	**2011**
By currency:				
In euros	15,950	25,905	-	-
	15,950	25,905	-	-
By maturity:				
Between 3 months and 1 year	-	-	-	-
Between 1 and 5 years	14,259	22,513	-	-
Over 5 years	-	1,800	-	-
No set maturity	1,691	1,592	-	-
	15,950	25,905	-	-

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 carrying value at the dates in question:

	2012		2011	
	Amount	**%**	**Amount**	**%**
By geographical sector:				
Spain	920	3.77%	900	3.47%
Other European Union countries	5,120	32.10%	14,209	54.85%
Rest of the world	9,910	62.13%	10,796	41.68%
	15,950	100.00%	25,905	100.00%
By counter-party categories:				
Credit institutions	15,528	97.35%	25,474	98.34%
Resident Public Administrations	-	-	-	-
Other resident sectors	-	-	-	-
Other non-resident sectors	422	2.65%	431	1.66%
	15,950	100.00%	25,905	100.00%
By instrument types:				
Listed bonds and debentures	4,698	29.45%	4,019	15.52%
Other fixed-income securities	10,332	62.13%	20,986	81.01%
Participation units in Investment Funds	920	8.42%	900	3.47%
	15,950	100.00%	25,905	100.00%

(Expressed in €' 000)

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:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Risks rated A	10,658	66.82%	23,882	92.19%
Risks rated B	3,601	22.58%	430	1.66%
Amounts not rated	1,691	10.60%	1,593	6.15%
	15,950	100.00%	25,905	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2012 and 2011 break down as follows:

	2012	**2011**
Spanish public debt	-	-
Other fixed-income securities	15,030	25,005
	15,030	25,005

The average rate of interest per annum on debt securities in 2012 and 2011 was 0.18% and 0.86%, respectively.

c) Equity instruments

Equity instruments on the asset side of the consolidated balance sheet at 31 December 2012 and 2011 relates to shares in mutual funds managed by the Group.

(Expressed in €' 000)

25. Available-for-sale financial assets

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Debt securities	3,173,129	2,988,678
Spanish public debt	1,692,668	635,048
Treasury Bills	51,030	23,799
Government bonds and debentures	1,641,638	129,790
Other debt securities traded by the book-entry system	-	481,459
Other Spanish Public Administrations debt	17,122	13,043
Foreign public debt	7,598	6,630
Issued by credit institutions	1,021,525	612,202
Resident sectors	737,327	315,039
Non-resident sectors	284,198	297,163
Other fixed-income securities	466,286	1,700,939
Issued by other resident sectors	193,235	1,451,234
Issued by other non-resident sectors	273,051	249,705
Doubtful assets	10,024	205,077
Value adjustments for asset impairment	(42,094)	(184,261)
Microhedge transactions	-	-
Equity instruments	844,753	821,203
Holdings in Spanish entities	89,918	112,074
Holdings in foreign entities	46,679	47,662
Participation units in Investment Funds	645,501	619,504
Shares in venture capital companies	59,218	41,963
Debt securities	3,437	-
	4,017,882	3,809,881

At 31 December 2012 "Equity instruments" include €13,377k (€13,630k at 31 December 2011), which relates to holdings in companies which the Group has agreed to sell at a specific date and at a price equal to acquisition cost plus a Euribor linked return.

The quantifiable fair value of the items included under the heading Available-for-sale financial assets at 31 December 2012 and 2011, as well as the measurement techniques applied, are set out in Note 44.

Note 41 provides a breakdown of the balance of the heading Equity - Measurement adjustments at 31 December 2012 and 2011 owing to changes in the fair value of items included under the heading Available-for-sale financial assets.

The eliminations from the heading Equity measurement adjustments in the years ended 31 December 2012 and 2011 recognized in the consolidated income statement totalled €4,766k and €5,192k, respectively, both net of the tax effect.

As indicated in note 16, in keeping with the Parent Entity's policy of actively monitoring its funding and liquidity situation, in 2012 the Group made significant purchases of bonds and bills issued by the Spanish government, increasing exposure to public debt in the portfolio of available-for-sale financial assets by over €1,000 million. In turn, the Group repaid, ahead of maturity, €1,400 million (face value) of multi-issuer covered bonds issued by the Parent Entity in 2009 and 2010, that were recognised under "Other fixed-income securities – Issued by other resident sectors" that had been pledged to secure ECB standing facilities. In order to replace the bonds redeemed ahead of maturity, note that the Parent Entity issued single-issuer covered bonds with a face value of €1,400 million during the year (note 36.d).

(Expressed in €' 000)

The breakdown by currency and maturity of the amounts presented under available-for-sale financial assets on the consolidated balance sheet at year-end 2012 and 2011 is provided in the table below:

	2012	2011
By currency:		
Euro	3,975,559	3,775,739
US dollars	39,854	32,027
Pounds sterling	672	412
Swiss francs	1,494	1,387
Other	303	316
	4,017,882	3,809,881
By maturity:		
Up to 1 month	3,279	-
Between 1 month and 3 months	145,080	23,924
Between 3 months and 1 year	243,182	58,604
Between 1 year and 5 years	2,310,799	2,395,801
Over 5 years	512,638	672,233
No set maturity	844,999	843,580
Measurement adjustments	(42,094)	(184,261)
	4,017,882	3,809,881

The reconciliation of the opening and closing balances of available-for-sale financial assets for 2012 and 2011 are as follows:

	2012	2011
At 1 January	3,809,881	3,525,901
Net additions/decreases	(949,368)	304,088
Additions due to business combination (notes 1.2 and 70)	1,065,930	109,399
Changes in fair value	231,530	(102,280)
Net impairment losses recognised in profit or loss	(139,354)	(30,953)
Other	(737)	3,726
At 31 December	4,017,882	3,809,881

The average rate of interest earned on the debt securities included in this category was 3.94% in 2012 (3.98% in 2011).

At 31 December 2012, "Debt securities – Issued by credit institutions – Non-resident sectors" include five issues for a total of €206 million (five issues for an aggregate €165 million at 31 December 2011) due between 2017 and 2018, the returns on which are benchmarked to interest rate parameters that are subject to floors and caps.

At 31 December 2011, "Other fixed-income securities – Issued by other resident sectors" included mortgage-backed bonds deriving from mortgage loans securitised by the Parent Entity, of which a total of €3,301k rank as subordinate. At 31 December 2012, the Parent Entity did not hold any subordinated bonds in the portfolio. At 31 December 2011, the heading included €1,404,920k corresponding to all of the mortgage-backed bonds issued by the Parent Entity in 2009 and 2010 through a series of funds (Cédulas TDA17, Fondo de Titulización de Activos, IM Cédulas 15, Fondo de Titulización de Activos and Cédulas TDA21, Fondo de Titulización de Activos), which were repaid ahead of maturity in the course of 2012 (note 36.c).

(Expressed in €' 000)

The Group's portfolio of available-for-sale assets at 31 December 2012 includes other subordinated debt instruments in the amount of €24,042k (€5,204k at 31 December 2011).

At 31 December 2012, the Parent Entity held equity interests in certain unlisted companies in respect of which there were uncalled capital payments at year-end of €837k (€1,281k at 31 December 2011).

a) Credit risk

Risk concentration by geographical sector in the debt securities portfolio is as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Spain	2,641,307	82.15%	2,411,356	76.00%
Other European Union countries	531,797	16.54%	590,531	18.61%
Rest of Europe	12,124	0.38%	96,002	3.02%
Rest of the world	29,995	0.93%	75,050	2.37%
	3,215,223	100.00%	3,172,939	100.00%
Measurement adjustments	(42,094)		(184,261)	
	3,173,129		2,988,678	

A breakdown of debt securities based on external credit ratings assigned by the main rating agencies is as follows:

	2012		2011	
	Importe	**%**	**Importe**	**%**
Risks rated A	234,671	7.40%	2,666,035	89.20%
Risks rated B	2,667,426	84.06%	72,584	2.43%
Risks rated C	-	-	3,220	0.11%
Unrated doubtful assets	-	-	47,557	1.59%
Amounts not rated	271,032	8.54%	199,282	6.67%
	3,173,129	100.00%	2,988,678	100.00%

Between 2008 and 2012, due mainly to expectations regarding the recoverablity of future cash flows from certain financial assets, stock market trends, liquidity problems in respect of certain fixed-income issues and the widespread increase in credit spreads, the Group has deemed some of the debt instruments included in its available-for-sale financial asset portfolio as impaired.

In 2012, the Parent Entity sold a significant portion of these assets that were classified as doubtful (carrying amount of the asset sold: €195,053k, provisioned in an amount of €149,803k), generating a net gain during the year of €14,830k.

At 31 December 2012 these assets totalled €10,024k (€205,077k in 2011) and are recorded under the heading "Debt securities - Doubtful assets". They mainly consist of bonds issued by non-resident financial institutions that are suffering from serious financial difficulties and, in any event, their redemption must be resolved through the courts. The accumulated impairment provisions for these assets totalled €10,024k at 31 December 2012 (€159,827k in 2011). The Entity considers that these provisions reflect the amount of expected losses involving these financial assets at the date these financial statements are prepared, based on the best information available.

(Expressed in €' 000)

b) Asset impairment losses

The breakdown of the balance under the heading "Impairment losses on financial assets (net)- Other financial instruments not at fair value through changes in profit and loss" in the consolidated income statement for the years ended 31 December 2011 and 2010 is set out below (Note 60):

	2012	2011
Debt securities	(6,425)	17,444
Other equity instruments	145,779	13,509
	139,354	30,953
Appropriations charged to income		
Determined collectively	167,122	30,963
Determined individually	6,413	891
Appropriations recovered taken to income	(34,181)	(901)
	139,354	30,953

The movement in 2012 and 2011 in Value Adjustments due to asset impairment under Available-for-sale financial assets is as follows:

	2012	2011
Balance at the beginning of the year	184,261	204,432
Net appropriations/(recoveries) charged/(taken) to income	(6,425)	17,444
Additions due to business combination	68	-
Transfers against recognised impairment provisions	(135,810)	(37,615)
	42,094	184,261

The breakdown by different criteria of the balance of Value Adjustments in respect of asset impairment under Available-for-sale financial assets at 31 December 2012 and 2011 is as follows:

	2012	2011
By manner of determination:		
Determined individually	36,470	182,924
Determined collectively	5,624	1,337
	42,094	184,261

26. Credit investments

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Deposits at credit institutions	327,261	225,184
Customer loans	16,469,685	15,142,089
Debt securities	70,239	110,884
	16,867,185	15,478,157

(Expressed in €' 000)

The breakdown by currency and maturity of Credits, loans and discounts in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012	2011
By currency:		
In Euro	17,804,092	15,805,041
In US dollars	17,320	12,377
In pounds sterling	259	217
In Japanese yen	1,277	2,390
In Swiss francs	173	148
Other	639	129
Measurement adjustments	(956,575)	(342,145)
	16,867,185	15,478,157
By maturity:		
Demand deposits	203,586	95,634
Up to 1 month	910,652	412,795
Between 1 month and 3 months	207,338	206,991
Between 3 months and 1 year	524,615	503,220
Between 1 and 5 years	1,875,646	1,732,388
Over 5 years	13,779,951	12,602,030
No set maturity	321,972	267,244
Measurement adjustments	(956,575)	(342,145)
	16,867,185	15,478,157

The average rate of interest per annum in 2012 and 2011 on Deposits at credit institutions amounted to 5.45% and 6.09% respectively.

Concerning the breakdown of credits, loans and discounts based on credit ratings assigned, internally or externally, and the relevant default rate, as is detailed in the note on Credit Risk, the Entity has developed internal scoring and rating models that rate customers or score transactions based on risk level in order to improve risk management and secure the validation of such internal models in order to calculate regulatory capital in accordance with Basel requirements.

At 31 December 2012 and 2011 the Parent Entity has information concerning the scoring models for mortgages and consumer transactions and the rating model for SMEs. However, in order to present a complete information about the level of credit risk within the Group, it has decided to include a breakdown of credits, loans and discounts based on the risk levels used to cover the credit risk:

	2012		2011	
	Amount	%	Amount	%
With no appreciable risk	1,312,841	8%	689,914	4%
Low risk	9,795,481	58%	8,447,213	55%
Medium – low risk	2,936,290	17%	3,189,988	21%
Medium risk	1,621,599	10%	2,259,698	15%
Medium-high risk	363,374	2%	230,031	1%
High risk	107,713	1%	149,708	1%
Substandard risk	392,177	2%	56,704	-
Doubtful assets	1,214,312	7%	738,708	5%
Amounts not rated	79,973	1%	58,338	-
Measurement adjustments	(956,575)	(6%)	(342,145)	(2%)
	16,867,185	100%	15,478,157	100%

During the year 2011, the Entity reclassified from the heading "Customer loans" to the heading "Non-current assets for sale", the financing granted to the companies of Grupo Fomenclar (classified as substandard risks), because it believed that these operations meet the requirements to be considered as foreclosed assets. The net amount in this reclassification was €183,296k (Note 29).

Set out below is the default rate at the Parent Entity, calculated as the relation between balances classed for accounting purposes as doubtful and the balance of customer loans, not taking into account measurement adjustments:

2012	2011	2010
6.95%	4.77%	3.17%

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a) Customer loans

The breakdown, into various headings, of Customer Loans in the heading of Credit Investments at 31 December 2012 and 2011, is as follows:

	2012	2011
By type and situation:		
Spanish Public Administrations	218,913	216,333
Commercial loans	394,949	420,311
Loans secured by mortgage guarantee	12,775,340	11,893,046
Loans secured by other real property guarantees	140,966	135,750
Other term loans	1,755,982	1,583,804
Finance leases	238,240	295,272
Demand loans and other	154,408	181,067
Repurchase agreements with counterparty entities	477,315	-
Doubtful assets	1,214,312	738,787
Other financial assets	61,250	24,961
Measurement adjustments	(961,990)	(347,242)
Interest accrued	23,277	28,737
Value adjustments for asset impairment	(969,541)	(360,136)
Fees	(15,726)	(15,843)
	16,469,685	15,142,089
By sector of activity of borrower:		
Spanish Public Administrations	219,146	216,712
Other resident sectors:	15,690,258	14,877,415
Agriculture, farming, hunting, forestry and fisheries	60,877	50,846
Industries	905,668	938,203
Construction	552,914	553,518
Services	2,527,466	2,581,099
Commerce and hotel and catering	724,423	676,489
Transport and communications	146,785	152,820
Other services	1,656,258	1,751,790
Loans to individuals:	12,437,304	10,873,036
Home loans	11,709,501	10,722,243
Consumer and other	727,803	150,793
Not classified	167,847	227,910
Measurement adjustments	(961,818)	(347,197)
Other non-resident sectors	21,582	23,001
Other financial assets	61,250	24,961
By sector of activity of borrower:	477,449	-
	16,469,685	15,142,089
By geographical area:		
- Bizkaia	4,775,307	3,270,897
- Gipuzkoa	3,804,968	3,899,145
- Araba	1,940,041	1,592,693
- Navarra	2,102,830	2,293,957
- Expansion network	4,149,766	4,384,332
- Unclassified	181,448	48,307
- Others	477,315	-
- Measurement adjustments	(961,990)	(347,242)
	16,469,685	15,142,089
Owing to interest rate applied		
Fixed interest rate	1,472,890	592,510
Variable interest rate linked to Euribor	15,203,814	14,409,920
Variable interest rate linked to CECA	4,718	3,973
Variable interest rate linked to IRHH	453,399	142,537
Other	296,854	340,391
Measurement adjustments	(961,990)	(347,242)
	16,469,685	15,142,089

(Expressed in €' 000)

The breakdown by currency and maturity of Customer loans in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012	2011
By currency:		
In Euro	17,416,983	15,476,661
In US dollars	13,813	10,202
In pounds sterling	-	154
In Japanese yen	790	2,220
In Swiss francs	88	94
Others	1	-
Measurement adjustments	(961,990)	(347,242)
	16,469,685	15,142,089
By maturity:		
On demand	99,412	12,783
Up to 1 month	902,854	395,226
Between 1 month and 3 months	207,268	206,993
Between 3 months and 1 year	476,101	489,850
Between 1 and 5 years	1,839,599	1,697,355
Over 5 years	13,584,469	12,419,964
No set maturity	321,972	267,160
Measurement adjustments	(961,990)	(347,242)
	16,469,685	15,142,089

At 31 December 2012 the Group has granted subordinated loans amounting to €16,516k (€16,950k at 31 December 2011).

At 31 December 2012 and 2011 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 2012 and 2011 the investment outstanding and residual values by type of asset financed are as follows:

Principal	**2012**	**2011**
Capital goods	42,676	60,416
Computer hardware	1,503	1,496
Materials and transport vehicles	39,201	50,076
Cars	24,296	27,771
Other assets	16,960	20,209
Total moveable property	124,636	159,968
Real property	101,072	110,065
TOTAL	225,708	270,033

(Expressed in €' 000)

Residual value	**2012**	**2011**
Capital goods	2,183	3,553
Computer hardware	63	76
Materials and transport vehicles	5,395	8,918
Cars	13,775	14,359
Other assets	587	638
Total moveable property	22,003	27,544
Real state property	8,285	8,825
TOTAL	30,288	36,369

Of these balances a total of €17,756k and €11,130k at 31 December 2012 and 2011, respectively, relates to impaired assets which are included under Doubtful assets.

A breakdown of securitisation and other asset transfers by the Parent Entity at 31 December 2012 and 2011 is as follows:

	2012	**2011**
Written off the balance sheets in their entirety:	-	11,420
Mortgage assets securitised through mortgage bond holdings	-	11,420
Memorandum item: Written off the balance sheet:		
before 1 January 2004	-	*11,420*
Carried in the balance sheet in their entirety:	1,250,492	1,389,449
Mortgage assets securitised through mortgage transfer certificates	1,131,146	1,229,824
Other securitised assets	119,346	159,625
	1,250,492	1,400,869

In 1999, the Group carried out an asset securitisation program by means of the issuance of mortgage-backed securities with a face value of €90,152k. The mortgage loans were transferred to "TDA9, Fondo de Titulización Hipotecaria". The Parent Entity repaid Fondo TDA9, Fondo de Titularización Hipotecaria ahead of maturity on 22 June 2012. The outstanding balance of the related loans at 31 December 2011 was €11,420k. The Parent Entity transferred subordinated loans to this fund with an outstanding balance at 31 December 2011 of €11k. The securitised assets were derecognised by the Group in keeping with the accounting treatment indicated in note 13.g).

In the following years, the Parent Entity carried out several asset securitisation programs, transferring mortgage loans and corporate loans to securtisation funds "I.M. Caja Laboral 1, F.T.A.", "I.M. Caja laboral 2, F.T.A. and "I.M. Caja Laboral Empresas 1, F.T.A." in the amounts of €900,000k, €600,000k and €294,500k, respectively.

The outstanding balance of these assets at 31 December 2012 stood at €1,250,492k (€1,389,449k at year-end 2011). Note that the Parent Entity subscribed in full to the securitised bonds issued by funds "I.M. Caja Laboral 2, F.T.A." and "I.M. Caja Laboral Empresas 1, F.T.A.". The Entity intends to use these assets as collateral to secure Eurosystem credit transactions.

In addition, at 31 December 2012, the Parent Entity has extended the abovementioned asset securitisation funds subordinated loans in the amount of €56,703k (€59,855k at 31 December 2011).

(Expressed in €' 000)

b) Asset impairment losses

The breakdown of Impairment losses on financial assets (net) - Credits, loans and discounts in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Loans	558,228	131,973
Appropriations	630,930	205,313
Doubtful loans recovered	(4,108)	(5,144)
Other loans recovered	(68,594)	(68,196)
	558,228	131,973
Appropriations charged to income	630,930	205,313
Determined individually	490,980	176,048
Determined collectively	139,950	29,265
Appropriations recovered taken to income	(68,594)	(68,196)
Suspense account items recovered	(4,108)	(5,144)
	558,228	131,973

The breakdown at 31 December 2012 and 2011 of the balance of Value Adjustments in respect of asset impairment under Credits, loans and discounts, is as follows:

	2012	2011
By type of cover:		
Specific cover	792,789	316,748
Complementary cover	176,752	43,388
	969,541	360,136
By manner of determination:		
Determined individually	792,789	316,748
Determined collectively	176,752	43,388
	969,541	360,136
By counter-party:		
Other resident sectors	968,994	359,788
Other non-resident sectors	547	348
	969,541	360,136

The specific hedge balance at 31 December 2012, includes €60,724k (€19,797k at 31 December 2010) intended to adjust the value of certain customer credit transactions totaling €392,177k (€73,695k at 31 December 2011). This hedge is in addition to that required by the status of these transactions or the counter-parties, which have been identified by the Group as bearing a higher probability of impairment under certain economic scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in €' 000)

The breakdown at 31 December 2012 and 2011 of the balance of Value Adjustments in respect of asset impairment under Credits, loans and discounts, is as follows:

	Specific cover	Complementary cover	Total
Balance at beginning of 2011	358,734	14,797	373,531
Net appropriations against income	176,048	29,265	205,313
Recoveries	(67,522)	(674)	(68,196)
Transfer to doubtful loans against funds set up	(62,957)	-	(62,957)
Other	(87,555)	-	(87,555)
Balance at year-end 2011	316,748	43,388	360,136
Net appropriations against income	490,980	139,950	630,930
Recoveries	(38,980)	(29,614)	(68,594)
Transfer to doubtful assets against funds set up	(67,643)	-	(67,643)
Additions due to business combination	191,536	23,029	214,565
Other	(99,852)	(1)	(99,853)
Balance at year-end 2012	792,789	176,752	969,541

"Other" in the table above mainly reflects the reclassification of the specific provision on the funding extended to Grupo Fomenclar to "Non-current assets held for sale" in the amount of €49,962k (€79,471k at year-end 2011) (note 29).

The amount of cumulative financial income not recognised in the consolidated income statement relating to impaired financial assets totals €68,681k and €48,346k, at 31 December 2012 and 2011, respectively.

Set out below is a breakdown of the carrying value of impaired assets, without deduction of value adjustments for impairment:

	2012	2011
By geographical area:		
- Bizkaia	291,651	89,317
- Gipuzkoa	183,702	65,384
- Araba	116,649	129,734
- Navarra	222,512	-
- Expansion network	389,857	454,352
- Not classified	9,941	-
	1,214,312	738,787
By counter-party:		
- Spanish Public Administrations	-	79
- Other resident sectors	1,213,609	738,421
- Other non-resident sectors	703	287
	1,214,312	738,787
By type of instrument:		
- Commercial loans	22,149	3,205
- Loans and credits	1,114,783	677,814
- Finance leases	39,644	28,275
- Remainder	37,736	29,493
	1,214,312	738,787

(Expressed in €' 000)

The breakdown of the age of the amounts classified as impaired is as follows:

	2012	2011
Up to 6 months	521,540	378,729
Over 6 months without exceeding 9 months	123,484	67,318
Over 9 months without exceeding 12 months	119,979	47,779
Over 12 months	449,309	244,961
	1,214,312	738,787

The carrying value of financial assets which are past due and not impaired based on the oldest maturity of each transaction is as follows:

	2012	2011
Up to 1 month	16,468	37,770
Between 1 month and 2 months	13,342	22,930
Between 2 months and 3 months	9,549	14,207
	39,359	74,907

A breakdown is provided below at 31 December 2012 and 2011 of balances under Credits, loans and discounts written off the consolidated Group balance sheet based on the view that the possibilities of their recovery are remote:

	2012	2011
Customer loans	173,722	143,401
	173,722	143,401

The movement in impaired financial assets written off because recovery is considered remote is as follows:

	2012	2011
Balance at the beginning of the year	143,401	104,426
Additions:	210,073	100,572
Value adjustment for asset impairment	204,876	100,572
Due to business combination	5,197	-
Recoveries:	(4,108)	(5,144)
Due to collection in cash of principal	(4,108)	(5,144)
Definitive write-offs:	(175,644)	(56,453)
Condoned	(175,644)	(56,453)
Balance at the end of the year	173,722	143,401

At 31 December 2012, the amounts definitively written off due to forgiveness amounted to €175,644k (€56,453k at year-end 2011). The increase in this balance relates mainly to the sale of non-performing doubtful fixed-income instruments in 2012 and 2011 (note 25).

(Expressed in €' 000)

27. Held to maturity investments

Set out below is a breakdown of this heading in the balance sheets at 31 December 2012 and 2011:

	2012	2011
Spanish public debt	81,787	288,360
Treasury Bills	-	-
Other book-entry debt instruments	81,787	288,360
Other Spanish Public Administrations debt	1,038,772	1,427
Foreign public debt	10,876	10,929
French public debt	5,387	5,398
German public debt	4,643	4,668
Dutch public debt	846	863
Bonds and debentures	710,329	148,112
Issued by credit institutions	710,329	148,112
Residents	687,491	123,874
Non-residents	22,838	24,238
Measurement adjustments for asset impairment	-	-
Microhedge transactions	27,026	12,570
	1,868,790	461,398

The breakdown by currency, maturity date in the listed price of the Held-to-maturity investment portfolio in the balance sheets at 31 December 2011 and 2010, without taking into consideration Measurement adjustments for asset impairment, is as follows:

	2012	2011
By currency:		
In Euro	1,868,790	461,398
	1,868,790	461,398
By maturity:		
Between 3 months and 1 year	13,728	-
Between 1 and 5 years	1,584,578	184,964
Over than 5 years	243,458	263,864
Measurement adjustments	27,026	12,570
	1,868,790	461,398
By ratings:		
Risks classified as Rating A	86,961	408,141
Risks classified as Rating B	1,779,251	50,967
Amounts not assigned	2,578	2,290
	1,868,790	461,398

(Expressed in €' 000)

Movements in 2012 and 2011 in the Held-to-maturity investment portfolio are set out below:

	2012	2011
Balance at beginning of the year	461,398	430,487
Additions due to purchases	1,522,562	5,591
Additions due to business combination (Note 70)	-	7,999
Amortizations	(126,213)	(10,217)
Microhedge transactions	14,456	27,986
Collected interests	(6,852)	(5,087)
Apportionment of interest	3,439	4,639
Balance at the end of the year	1,868,790	461,398

The average annual interest rate during the years 2012 and 2011 in the Investment portfolio held to maturity was 3.55% and 4.06%, respectively.

As indicated in note 16, in keeping with the policy of actively monitoring its funding and liquidity situation, in 2012 the Parent Entity made significant purchases of bonds and bills issued by the Spanish government, increasing exposure to public debt in the portfolio of held to maturity investments by over €800 million.

The carrying value shown in the above tables represents the maximum exposure to credit risk relating to the indicated financial instruments.

The quantifiable fair value of the items included under the heading Investment portfolio held to maturity at 31 December 2012 and 2011, as well as the measurements techniques applied, are set out in Note 44.

At 31 December 2012 and 2011, the Parent Entity maintains a fair value hedging on the State Bonds, included in the investment portfolio with nominal maturity amounting to €200,00k. This coverage was performed through contracting OTC financial swaps on interest rates with non-resident credit entities, the fair value of which at 31 December 2012 and 2011, amount (€27,026k) and €12,570k, respectively.

28. Derivatives held for hedging

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2012 and 2011:

	Assets		Liabilities	
	2012	2011	2012	2011
Micro-hedges:	447,458	359,375	81,193	42,536
Fair value hedges	445,920	357,587	81,193	42,536
Cash flow hedges	1,538	1,788	-	-
	447,458	359,375	81,193	42,536

(Expressed in €' 000)

The breakdown by currency and maturity of asset and liability hedging derivatives in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	Assets		Liabilities	
	2012	**2011**	**2012**	**2011**
By currency:				
In Euro	447,458	359,375	80,719	42,536
By currency:	-	-	474	-
	447,458	359,375	81,193	42,536
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	1,098	-	474	-
Between 3 months and 1 year	15,668	3,049	-	-
Between 1 and 5 years	207,601	205,257	7,610	15,579
Over 5 years	223,091	151,069	73,109	26,957
	447,458	359,375	81,193	42,536

The balance of hedging derivatives on the asset and liability sides of the consolidated balance sheets at 31 December 2012 and 2011 breaks down as follows:

	2012		
	Notional value	**Fair value**	
		Assets	**Liabilities**
Other interest rate operations			
Financial swaps	5,262,115	447,458	81,193
Other share operations			
Financial swaps	-	-	-
		447,458	81,193

	2011		
	Notional value	**Fair value**	
		Assets	**Liabilities**
Other interest rate operations			
Financial swaps	4,835,503	359,375	42,536
Other share operations			
Financial swaps	-	-	-
		359,375	42,536

The notional and/ or contractual amount of asset and liability hedging derivatives 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 hedging instruments arranged and in force at 31 December 2012 and 2011 were intended to hedge the interest rate exposure arising on certain financial liabilities at amortised cost, mainly mortgage bonds with a face value of €3,225,000k (note 36) and certain debt instruments, essentially government bonds with a face value of €550,000k, at both year-ends (notes 25 and 27).

(Expressed in €' 000)

The notional value of certain types of financial instrument provides a basis for comparison with instruments recorded in the balance sheet but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore does not indicate the Group's exposure to credit risk or price risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in the market interest rates or exchange rates related to their terms.

The contractual or notional aggregate of available derivatives, the extent to which the instruments are favourable or unfavourable and therefore the aggregate fair values of the financial asset and liability derivatives may fluctuate significantly.

29. Non-current assets for sale

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Property, plant and equipment	317,892	368,591
Property, plant and equipment for own use	2,445	3,070
Property, plant and equipment foreclosed	768,824	552,325
Measurement adjustments for asset impairment	(453,377)	(186,804)
	317,892	368,591

Movements during 2012 and 2011 under in Non-current assets for sale are as follows:

	2012	2011
Individualised items:		
Balance at the beginning of the year	368,591	18,712
Additions	142,639	278,028
Disposals	(29,180)	(19,043)
Balances due to business combination (note 1.2)	59,640	-
Net impairment charges	(203,890)	(56,272)
Trasfers to inventories	-	156,607
Transfers to PPE (Note 29)	24	2,140
Trasnsfers to writte off assets	(19,932)	(11,581)
Balance at the end of the year	317,892	368,591

In 2011, the Group reclassified certain real estate assets from inventories to non-current assets held for sale based on the consideration that these transactions met the requirements for classification as foreclosed assets. The carrying amount of the assets so reclassified was €156,607k.

(Expressed in €' 000)

The breakdown of impairment losses on Non-current assets for sale, booked in the consolidated income statements of the years ended 31 December 2012 and 2011 is shown below (Note 63):

	2012	2011
Property, plant and equipment	203,890	56,272
Other assets	-	-
	203,890	56,272
Appropriations charged to income	203,890	56,272
	203,890	56,272

The movement in 2012 and 2011 in Value Adjustments due to asset impairment under non-current available-for-sale assets is as follows:

	2012	2011
Balance at beginning of the year	186,804	436
Net appropriations against income	203,890	56,272
Disposals and sales	(5,133)	-
Additions due to business combination	37,786	-
Transfers to inventories (Note 35) and credit investments (Note 26)	49,962	141,847
Transfers to written off assets against recognised impairment provisions	(19,932)	(11,751)
Other	-	-
	453,377	186,804

The movement in Measurement Adjustments for asset impairment under Non-current available-for-sale assets at 31 December 2012 and 2011 is as follows:

	2012	2011
Individualized items	453,377	186,804
	453,377	186,804

30. Shareholdings

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Associates:		
Net value	3,345	4,413
Cost	3,345	4,413
Value adjustments for asset impairment	-	-
Multigroup entities:		
Net value	-	-
Cost	-	-
Value adjustments for asset impairment	-	-
	3,345	4,413

(Expressed in €' 000)

Movements in 2012 and 2011 in the balance of Shareholdings are as follows:

	2012	2011
Balance at the beginning of the year	4,413	23,831
Additions due to business combination (Notes 1.2 y 70)	-	1,598
Acquisitions	-	49
Disposals	(1,140)	(1,308)
Disposals due to business combination achieved in stages (Note 70)	-	(20,035)
Share in income	(11)	(464)
Share measurement gains (losses)	-	(58)
Payment of dividends	-	-
Adjustment of financial charges to associates	83	800
Value adjustments for asset impairment		
Other	3,345	4,413

Appendix I includes significant information on shareholdings in Multigroup entities and Associates and Subsidiaries which have been consolidated under the full consolidation method at 31 December 2012 and 2011.

31. Assets held for reinsurance

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Technical provision for unconsumed premiums	10,692	13,638
Life insurance technical reserves	1,667	1,670
Technical reserves for claims	15,952	17,355
	28,311	32,663

(Expressed in €' 000)

32. Property, plant and equipment

Set out below is a breakdown of these heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Property, plant and equipment	402,025	359,352
For own use:	383,318	338,513
Data processing equipment and installations	4,584	2,999
Furnishings, vehicles and other installations	32,713	26,282
Buildings	344,125	309,767
Work in progress	-	-
Other	1,896	-
Impairment losses	(30,812)	(535)
Assigned under operating lease	17,822	19,923
Associated with Community Projects	885	916
Furniture and installations	3	3
Buildings	882	913
Real estate investments	37,372	30,362
Buildings	34,026	29,048
Rural properties, land and plots	3,346	1,314
	439,397	389,714

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The movement in 2012 and 2011 in the balance of Property, plant and equipment is as follows:

	For own use	Assets assigned under operating lease	Associated with Community Projects	Investment properties	Total
Gross					
Balance at 1 January 2011	528,773	37,882	2,135	32,318	601,108
Additions	3,068	6,261	-	29	9,358
Additions due to business combination (note 70)	47,906	-	-	-	47,906
Disposals	(3,159)	(11,422)	-	-	(14,581)
Transfers	(5,885)	-	-	5,885	-
Transfers to non-current assets for sale	(2,140)	-	-	-	(2,140)
Balance at 31 December 2011	568,563	32,721	2,135	38,232	641,651
Additions	6,460	15,845	-	217	22,522
Additions due to business combination (Note 1,2)	137,139	-	-	7,531	144,670
Disposals	(4,637)	(21,445)	-	(366)	(26,448)
Transfers	(2,856)	-	-	2,856	-
Transfers to non-current assets for sale	-	-	-	144	144
Balance at 31 December 2012	704,669	27,121	2,135	48,614	782,539
Accumulated amortization					
Balance at 1 January 2011	202,943	15,607	1,189	7,448	227,187
Charges	15,486	5,586	30	351	21,453
Disposals	(1,840)	(8,395)	-	-	(10,235)
Transfers	(71)	-	-	71	-
Transfers to non-current assets for sale	-	-	-	-	-
Additions due to business combination (note 70)	12,997	-	-	-	12,997
Balance at 31 December 2011	229,515	12,798	1,219	7,870	251,402
Charges	12,225	4,635	31	752	17,643
Additions due to business combination (note 1.2)	51,564	-	-	1,784	53,348
Disposals	(2,049)	(8,134)	-	-	(10,183)
Transfers	(716)	-	-	716	-
Transfers to non-current assets for sale	-	-	-	120	120
Balance at 31 December 2012	290,539	9,299	1,250	11,242	312,330
Value adjustments owing to asset impairment					
Balance at 1 January 2011	-	-	-	-	-
Additions due to business combination (note 70)	(535)	-	-	-	(535)
Balance at 31 December 2011	(535)	-	-	-	(535)
Additions (note 32)	(30,812)	-	-	-	(30,812)
Decreases	535	-	-	-	535
Balance at 31 December 2012	**(30,812)**	**-**	**-**	**-**	**(30,812)**
Neto					
Balance at 31 December 2011	**338,513**	**19,923**	**916**	**30,362**	**389,714**
Balance at 31 December 2012	**383,318**	**17,822**	**885**	**37,372**	**439,397**

(Expressed in €' 000)

Property, plant and equipment for own use in the consolidated balance sheets at 31 December 2012 and 2011 break down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
At 31 December 2012				
Data processing equipment and installations	64,066	(59,482)	-	4,584
Furnishings, vehicles and other installations	201,422	(168,709)	-	32,713
Buildings	428,960	(54,023)	(30,812)	344,125
Work in progress	-	-	-	-
Other	10,221	(8,325)	-	1,896
	704,669	(290,539)	(30,812)	383,318
At 31 December 2011				
Data processing equipment and installations	49,581	(46,582)	-	2,999
Furnishings, vehicles and other installations	160,455	(134,173)	-	26,282
Buildings	358,527	(48,760)	(535)	309,232
Work in progress	-	-	-	-
Other	-	-	-	-
	568,563	(229,515)	(535)	338,513

The fair value of Property, plant and equipment for own use and under construction is included in Note 44 to the annual accounts.

The net balance at 31 December 2012 and 2011 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 fully-depreciated property, plant and equipment for own use still in use at 31 December 2012 and 2011 amounts to approximately €196,635k and €166,767k, respectively.

The balance of Investment properties in the consolidated balance sheets at 31 December 2012 and 2011 breaks down as follows:

	Gross	Accumulated amortization	Net
At 31 December 2012			
Buildings	45,268	(11,242)	34,026
Rural properties, land and plots	3,346	-	3,346
	48,614	(11,242)	37,372
At 31 December 2011			
Buildings	36,918	(7,870)	29,048
Rural properties, land and plots	1,314	-	1,314
	38,232	(7,870)	30,362

(Expressed in €' 000)

The fair value of Investment properties is indicated in Note 44 to the annual accounts.

Net operating income from the Group's Investment properties during 2012 and 2011 amounted to approximately €1,072 and €1,133k, respectively.

The most significant contracts under which the Group is the lessor are leases for modules or premises located in landmark buildings, with indefinite maturities and clauses for termination by either party.

When dealing with the lease of commercial premises or similar, contracts have a defined maturity, the term being established in each specific case.

Set out below is a breakdown of the balance of Assets assigned under operating leases in the consolidated balance sheets at 31 December 2012 and 2011:

	Gross	Accumulated amortization	Net
At 31 December 2012			
Machinery	7,576	(4,034)	3,542
Furnishings and fixtures	13	(1)	12
Buildings	5,435	(748)	4,687
Computer hardware	9,067	(4,255)	4,812
Medical equipment	29	(14)	15
Vehicles	4,963	(225)	4,738
Other	38	(22)	16
	27,121	(9,299)	17,822
At 31 December 2011			
Machinery	9,580	(5,147)	4,433
Furnishings and fixtures	2	-	2
Buildings	5,435	(589)	4,846
Computer hardware	10,132	(4,929)	5,203
Medical equipment	80	(47)	33
Vehicles	7,452	(2,063)	5,389
Other	40	(23)	17
	32,721	(12,798)	19,923

Income from rent from Assets assigned under operating leases by the Group in 2012 and 2011 amounted to approximately €6,370k and €7,414k, respectively. Operating expenses of all kinds corresponding to Assets assigned under operating leases by the Group in 2012 and 2011 amounted to approximately €681k and €617k, respectively. (Note 55).

At 31 December 2012 and 2011, the Group had the following commitments in relation to its Property, plant and equipment:

- The Group leases certain properties for which it has paid €23,454k and €6,880k, in 2012 and 2011, respectively in respect of rentals (Note 57,b). At 31 December 2012 and 2011 the time to maturity of these lease contracts stood at an average of 10 years.

(Expressed in €' 000)

33. Intangible assets

The breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012	2011
Goodwill (Note 70)	33,425	33,425
Other intangible assets	1,048	1,527
With undefined useful life	1,048	1,527
Amortised cost	1,048	1,527
Value adjustments for asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	-	-
	34,473	34,952

The breakdown of the balance in Goodwill in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012	2011
Seguros Lagun Aro, S.A.		
Gross	33,425	33,425
Impairment corrections	-	-
	33,425	33,425

In accordance with estimates and projections available to the Directors of the Parent Entity, the income forecasts attributable to the Group from the participated entities that generate the goodwill can adequately support the net value booked for these.

Without taking into account the corrections for impairment of the assets, the movement of the balance in Goodwill during 2012 and 2011 was as follows:

	2012	2011
Opening balance	33,425	-
Movements due to modifications in the consolidation scope for business combinations (Note 70).	-	33,425
	33,425	33,425

There were no corrections booked for impairment under the heading "Other assets impairment losses (net) - Goodwill" in the consolidated income statement during the years ended at 31 December 2012 and 2011.

(Expressed in €' 000)

34. Tax assets and liabilities

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2012 and 2011:

	Assets		Liabilities	
	2012	2011	2012	2011
Current taxes:	42,602	22,977	14,053	2,796
Corporate income tax	4,442	-	9,025	2,796
VAT	36,236	18,231	-	-
Withholdings refundable/payable	1,924	4,746	-	-
Other	-	-	5,028	-
Deferred taxes:	329,152	132,434	92,174	50,536
Measurement adjustments available- for- sale portfolio	37,368	89,413	43,116	18,499
Fixed asset restatement	-	-	39,583	29,459
Opening fees	462	661	-	-
Tax credits	256,832	34,722	-	-
Reinvestment in fixed assets	-	-	-	-
Provision for pensions and similar obligations	2,884	2,448	-	-
Bad debt provision	25,328	-	-	-
Depreciation and amortisation	353	-	-	-
Impairment of shareholdings	735	-	-	-
Revaluation of own financial liabilities mortgage bonds	-	-	6,984	-
Other items	5,190	5,190	2,491	2,578
	371,754	155,411	106,227	53,332

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2012 and 2011 between accounting and tax criteria which have been recorded as Deferred tax assets and Deferred tax liabilities upon calculation and recording of the corresponding Corporate Income Tax.

(Expressed in €' 000)

Movements in 2012 and 2011 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2012	**2011**	**2012**	**2011**
Balance at 1 January	132,434	90,337	50,536	49,928
Increases / (decreases) due to business combination	39,327	-	25,609	-
Bad debt provision	24,516	-	-	-
Measurement adjustments – AFS portfolio	3,341	-	5,807	-
Revaluation of fixed assets	-	-	12,595	-
Arrangement fees	40	-	-	-
Tax credits	9,276	-	-	-
Provision for pensions and similar obligations	1,066	-	-	-
Mortgage bonds	-	-	6,984	-
Depreciation and amortisation	353	-	-	-
Impairment of shareholdings	735	-	-	-
Other	-	-	223	-
Increases / (decreases)	157,391	42,097	16,029	608
Bad debt provision	-	-	-	-
Reinvestment in fixed assets	-	-	-	(14)
Measurement adjustments – AFS portfolio	(55,386)	22,779	18,810	(1,770)
Revaluation of fixed assets	-	-	(2,471)	(186)
Arrangement fees	(239)	2	-	-
Tax credits	212,834	20,610	-	-
Provision for pensions and similar obligations	(630)	(1,453)	-	-
Other	812	159	(310)	2,578
At 31 December	329,152	132,434	92,174	50,536

Deferred income tax assets are recognised for unused tax losses and unused tax credits to the extent that it is probable that sufficient taxable profit will be available to enable the utilisation of the related tax relief within the following 10 years. At 31 December 2012, the Parent Entity had recognised deferred tax assets in respect of unused tax losses and unused tax credits in amounts of €229,369k and €27,463k, respectively. These tax assets are expected to be offset in future years against taxable income generated by the Parent Entity, in keeping with the Caja Laboral Merger Business Plan, once both cooperatives' business models are integrated and all the related identified synergies materialise (note 1).

Note 43 outlines the Group's tax matters in further detail.

(Expressed in €' 000)

35. Other assets and liabilities

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2012 and 2011:

	Assets		Liabilities	
	2012	2011	2012	2011
Inventories	30,675	147	-	-
Time-apportionment of accrued fees	15,177	12,100	-	-
Other accrual items	9,904	9,554	25,551	21,007
Transactions in progress	1,191	163	1,720	207
Credits for direct insurance operations and other credits	12,550	15,826	-	-
Commercial creditors and other accounts payable	-	-	8,932	17,728
Other items	1,526	979	8,358	3,827
	71,023	38,769	44,561	42,769

'Inventories' in the table above correspond mainly to real estate developments being developed by the Group and relate to balances contributed by the former Ipar Kutxa as part of the business combination (note 2.1).

36. Financial liabilities at amortised cost

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Deposits from central bank	3,124,011	200,055
Deposits by credit institutions	710,701	638,408
Customer funds	18,375,193	17,911,611
Marketable debt securities	421,778	437,605
Other financial liabilities	172,839	160,259
	22,804,522	19,347,938

(Expressed in €' 000)

The breakdown by currency and maturity of financial liabilities at amortised cost in the consolidated balance sheets at 31 December 2012 and 2011 is as follows:

	2012	2011
By currency:		
In Euro	22,782,995	19,328,133
In US dollars	20,140	19,325
In pounds sterling	594	216
In Swiss francs	286	122
In Japanese yen	30	2
Other	477	140
	22,804,522	19,347,938
By maturity:		
Demand deposits	8,181,705	6,680,043
Up to 1 month	1,072,696	1,005,207
Between 1 month and 3 months	1,296,618	904,753
Between 3 months and 1 year	3,320,738	3,232,144
Between 1 and 5 years	6,855,133	1,967,674
Over 5 years	1,568,847	5,091,973
No set maturity	-	-
Measurement adjustments	508,785	466,144
	22,804,522	19,347,938

a) Central bank deposits

The balance of Deposits by central banks in the consolidated balance sheets at 31 December 2012 and 2011 breaks down as follows:

	2012	2011
Bank of Spain	3,100,000	200,000
Measurement adjustments	24,011	55
	3,124,011	200,055

As indicated in note 16, in keeping with the Parent Entity's policy of actively monitoring its funding and liquidity situation, in 2012 the Group participated in the liquidity auctions held by the European Central Bank in February and March 2012. At 31 December 2012, the Parent held ECB liquidity facilities totalling €3,100 million, all of which due in 2015.

At 31 December 2011, the Group maintain solely a time deposit with Bank of Spain of €200,000k, which has matured on January 2015.

The average rates of interest per annum on Deposits by Central Bank in 2012 and in 2011 were 0.87 and 0.81%, respectively.

The limits assigned by the Bank of Spain to the Parent Entity at 31 December 2012 within the credit system secured by public funds totaled €4,256,583k (€1,746,059k at 31 December 2011).

(Expressed in €' 000)

b) Deposits by credit institutions

The balance of Deposits by credit institutions in the consolidated balance sheets at 31 December 2012 and 2011 breaks down as follows:

	2012	2011
Fixed-term deposits	262,979	277,667
Repurchase agreements	-	22,279
Other accounts	447,067	337,412
Measurement adjustments	655	1,050
	710,701	638,408

The average rates of interest per annum on Deposits by credit institutions in 2012 and in 2011 were 0.79% and 1.52% respectively.

At 31 December 2012 and 2011, the heading "Fixed-term deposits" records a nominal amount of €100 million, relating to the Parent Entity issue of unique mortgage bonds that were acquired by the European Investment Bank.

At 31 December 2012 and 2011, under the heading "Other accounts" the amounts of €438,780k and €337,310k, respectively, are reflected, in the concept of deposits in credit entities, as guarantee of compliance with commitments accepted by the Parent Entity with these entities for operations in derivative instruments.

c) Customer funds

Set out below is a breakdown of the balance of Customer funds in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Spanish Public Administrations	185,291	225,362
Other resident sectors:	18,124,603	17,648,478
Demand deposits	7,112,904	6,115,595
Current accounts	2,005,405	1,778,484
Savings deposits	5,072,063	4,300,367
Other	35,436	36,744
Fixed- term deposits:	10,118,024	10,613,651
Time deposits	9,507,529	10,047,702
Other	610,495	565,949
Repurchase agreements	410,266	456,044
Measurement adjustments	483,409	463,188
Interest accrued	102,717	145,139
Micro-hedging	380,692	318,049
Other non-resident sectors	65,299	37,771
	18,375,193	17,911,611

Average rates of interest per annum during 2012 and 2011 on Customer funds may be broken down by product as follows:

	2012	**2011**
Demand deposits	0.55%	0.64%
Fixed- term deposits	2.77%	2.81%
Repurchase agreements	1.03%	1.31%

At 31 December 2012 the Parent Entity records creditor balances with cooperatives, other associates and investment funds managed by the Group amounting to €726,308k (€833,229k in 2011).

At 31 December 2012, the balance sheet heading "Fixed-term deposits – Other" records €3,475 million (€4,625 million at 31 December 2011) relating to the issue by the Parent Entity of extraordinary mortgage bonds that have been subscribed by several asset securitisation funds. The main characteristics are as follows:

	Mortgage bond			
		Nominal amount(€'000)		
Fund name	**Disbursement date**	**2011**	**2010**	**Maturity date**
Cédulas TDA2, Fondo de Titulización de Activos	26.11.03	300,000	300,000	22.11.13
Cédulas TDA3, Fondo de Titulización de Activos	03.03.04	300,000	300,000	01.03.16
IM Cédulas 2, Fondo de Titulización de Activos	11.06.04	500,000	500,000	11.06.14
IM Cédulas 3, Fondo de Titulización de Activos	19.11.04	200,000	200,000	19.11.14
Cédulas TDA5, Fondo de Titulización de Activos	29.11.04	100,000	100,000	27.11.19
IM Cédulas 4, Fondo de Titulización de Activos	09.03.05	100,000	-	09.03.15
IM Cédulas 5, Fondo de Titulización de Activos	15.06.05	500,000	500,000	15.06.20
Intermoney Master Cédulas, Fondo de Titulización de Activos	02.12.05	500,000	500,000	02.12.15
IM Cédulas 7, Fondo de Titulización de Activos	31.03.06	625,000	525,000	31.03.21
IM Cédulas 9, Fondo de Titulización de Activos	09.06.06	300,000	300,000	09.06.16
Cédulas TDA15, Fondo de Titulización de Activos	03.06.09	50,000	-	03.06.13
Cédulas TDA17, Fondo de Titulización de Activos	23.09.09	-	500,000	23.09.13
IM Cédulas 15, Fondo de Titulización de Activos	23.12.10	-	400,000	23.12.13
Cédulas TDA21, Fondo de Titulización de Activos	27.12.10	-	500,000	27.12.14
		3,475,000	4,625,000	

In conjunction with the business combination outlined in note 1.2, in 2012 Group received transfer of €250 million from three mortgage-backed security issues: Cédula TDA15, F.T.A., I.M. Cédulas 4, F.T.A. and I.M. Cédulas 7, F.T.A.

As disclosed in note 25, in 2012 the Parent Entity repaid, ahead of maturity, Cédulas TDA17, F.T.A., I.M. Cédulas 15, F.T.A. and Cédulas TDA21, F.T.A. at a total face value of €1,400 million. These issues were replaced with two mortgage bond issues placed in 2012 with a par value of €700 million apiece (note 36.d).

The nominal annual rate of interest payable on the covered bonds outstanding at 31 December 2012 and 2011 ranged between 3.25% and 4.51%. "Other resident sectors – Measurement adjustments" in the table above included at 31 December 2012 €380,692k (€318,049k at year-end 2011) corresponding, mainly, to changes in the fair values of the mortgage bonds that are attributable to the interest rate risk that has been hedged for accounting purposes, as detailed in note 28.

(Expressed in €' 000)

In Caja Laboral'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 68 to these annual consolidated financial statements includes the information regarding the special accounting treatment applicable to issuers of covered and mortgage bonds.

Set out below is a breakdown by currency and maturity of the balance of Customer funds in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
By currency:		
In Euro	18,353,666	17,892,109
In US dollars	20,140	19,022
In pounds sterling	594	216
In Swiss francs	286	122
In Japanese yen	30	2
Remainder	477	140
	18,375,193	17,911,611
By maturity:		
Demand deposits	7,516,003	6,314,262
Up to 1 month	1,066,548	811,376
Between 1 month and 3 months	1,295,107	890,452
Between 3 months and 1 year	3,186,839	3,222,396
Between 1 and 5 years	3,701,834	1,561,980
Over 5 years	1,124,999	4,646,444
	17,891,330	17,446,910
Measurement adjustments	483,863	464,701
	18,375,193	17,911,611

d) Marketable debt securities

Set out below is a breakdown of the balance of debt securities in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Promissory notes and bills	635	26,898
Other inconvertible securities	-	-
Mortgage- backed securities	1,821,522	410,369
Measurement adjustments	(1,400,635)	-
Promissory notes and bills	256	338
	421,778	437,605

<u>Promissory notes and bills</u>

At 31 December 2012 and 2011 this heading records the amortised cost subscribed relating to Promissory Note Issue Program 2012 and Promissory Note Issue Program 2011, respectively. Promissory notes issued at a discount under these programs have a nominal value of €50,000 and are accepted for trading on the AIAF Organised Secondary Market. At 31 December 2012 and 2011 the programs lay down a maximum issue amount of €750 million in both cases.

(Expressed in €' 000)

At 31 December 2012 the Parent Entity records creditor balances with cooperatives, other associates and investments funds managed by the Group amounting to €0k (€14,842k in 2011).

A breakdown is provided below by period remaining to maturity, indicating interest rates at the end of each year:

	Up to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Own securities	Total	Interest rate
At 31 December 2012	100	387	148	-	-	(635)	-	-
At 31 December 2011	23,582	1,241	1,588	487	-	-	26,898	4.00% y 0.70%

As of 31 December 2012, the Parent Entity had bought back all outstanding issues of promissory notes for €635k; these securities are recorded under "Own securities".

<u>Mortgage- backed securities</u>

During the year 2006 the Group contributed certain mortgage loans to the Securitisation fund "I.M. Caja Laboral 1, F.T.A."and "I.M. Caja Laboral Empresas 1, F.T.A.",respectively for the issue of securitision 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.

At 31 December 2012 the effective amount of the securitisation bonds issued through this securitisation fund and that had been subscribed by third parties apart from the Group amounted to €271,522k (€335,369k at 31 December 2011). These bonds mature in October 2049, for the securitisation fund I.M. Caja Laboral 1, F.T.A, and accrue an annual interest of Euribor plus a differential that varies between 0,15% and 0,21%.

At 31 December 2012, this heading also included €150 million (€75 million at 31 December 2011) corresponding to the par value of two unique mortgage-backed securities issues due in 2020 and 2019 that were bought in full by the European Investment Bank (EIB).

The rate payable on the securities bought by the EIB due in 2019 and 2012 is determined by reference to 3-month Euribor plus a spread of 5.50% and 3.55%, respectively, payable quarterly.

As disclosed in note 36.c) above, in 2012 the Parent Entity issued €1,400 million of mortgage-backed securities due 2016 and 2017. All of these securities have been held as "Own securities" with a view to using them as collateral at the European Central Bank's discount window.

(Expressed in €' 000)

Movements in 2012 and 2011 in Marketable debt securities are set out below:

	2012	2011
Balance at the beginning of the year	437,605	496,994
Issues	1,743,886	1,107,816
Amortisation	(358,798)	(1,166,867)
Own securities of the Group	(1,400,647)	-
Ajustes por valoración	(268)	(338)
Balance at the end of the year	421,778	437,605

The breakdown of interest accruing on debts represented by Group securities at 31 December 2012 and 2011 is as follows:

	2012	2011
Debts represented by negotiable securities	4,750	7,309
Promissory notes and bills	96	354
Other convertible securities	-	-
Mortgage securities	4,654	6,955
	4,750	7,309

37. Insurance contract liabilities

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Life insurance technical reserves:	440,460	448,630
Unearned premium and unexpired risk reserves:	68,203	74,118
Direct insurance	68,203	74,118
Mathematical reserves	372,257	374,512
Direct insurance	372,257	374,512
Technical reserves for life insurance when the investment risk is assumed by policyholders:	750	743
Direct insurance	750	743
Technical reserves for claims:	80,260	100,982
Direct insurance	80,260	100,982
Technical reserves for share in gains and returned premiums:	208	209
Direct insurance	208	209
Deposits received in respect of ceded reinsurance	-	-
	521,678	550,564

(Expressed in €' 000)

38. Provisions

Set out below is a breakdown of this heading in the balance sheets at 31 December 2012 and 2011:

	2012	2011
Retirement benefit obligations	2,467	8,742
Other pension provisions	2,467	8,742
Provisions for taxes and other contingencies	4,143	-
Provisions for taxes	4,143	-
Provisions for contingent exposures and commitments	35,939	9,284
Provision for contingent risks	35,939	9,284
Other provisions	4,025	-
	46,574	18,026

Movements in 2012 and 2011 in Provisions are set out below:

	Retirement benefit obligations	Provisions for taxes and other contingencies	Provisions for contingent exposures and commitments	Other provisions	Total
At 31 December 2011					
Balance at the beginning of the year	13,932	-	7,886	-	21,818
Appropriation against income:		-		-	
Appropriations to provisions	1,691	-	5,189	-	6,880
Available provisions	-	-	(940)	-	(940)
Recoveries	-	-	(3,119)	-	(3,119)
Utilisation of funds	(6,881)	-	-	-	(6,881)
Additions due to business combination (note 70)	-		1,356		1,356
Other movements	-	-	(1,088)	-	(1,088)
Balance at the end of the year	8,742	-	9,284	-	18,026
At 31 December 2012					
Balance at the beginning of the year	8,742	-	9,284	-	18,026
Net appropriation against income:					
Appropriations to provisions	1,081	4,143	50,275	4,025	59,524
Available provisions	-	-	(16,602)	-	(16,602)
Recoveries	-	-	(5,704)	-	(5,704)
Applications	(7,356)	-	-	-	(7,356)
Additions due to business combination (Note 1.2)	-	-	717	-	717
Other movements	-	-	(2,031)	-	(2,031)
Balance at the end of the year	2,467	4,143	35,939	4,025	46,574

(Expressed in €' 000)

a) Retirement benefit obligations

The Parent Entity has entered into future commitments with some of its members deriving from the voluntary Dynamic Payroll Plan. As a result, the Parent Entity has created funds to cover the commitments relating to active personnel, accruing from the time the plan was created until the time they cease to render services to the Parent Entity, to cover salary supplements and other welfare expenses that they will receive until the employee effectively retires.

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:

	2012	**2011**
Commitments entered into	2,467	8,742
	2,467	8,742
Hedges		
Internal funds	2,467	8,742
	2,467	8,742

On 31 December 2012 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. Assumptions of future salary growth and annual adjustments of pensions included in the calculating were 0.5% and 1.5% respectively.

39. Community projects fund

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	**2011**
Development and Education Fund	4,658	917
Appropriation:	4,279	538
Applied to Property, plant and equipment	506	538
Applied to other investments - Available-for-sale financial assets (note 25)	3,437	-
Expenses committed during the year	-	1,535
Current year maintenance expenses	-	(1,535)
Amount not committed	336	-
Revaluation reserves	379	379
	4,658	917

(Expressed in €' 000)

Movements during 2012 and 2011 in the balance of the Community Projects Fund are as follows:

	2012	2011
Balance at beginning of the year	917	2,481
Mandatory provision charged against the surplus for the year	-	-
Addition due to business combination (note 1.2)	3,773	-
Appropriation against the surplus for the year	-	(1,535)
Fixed asset depreciation (Note 30)	(31)	(30)
Other	(1)	1
Balance at the end of the year	4,658	917

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 1987, under which 10% of the net surplus, at least, should be appropriated to the Development and Education Fund (Note 4).

Endowments to this Fund must be used, among other purposes, for the development of the cooperative banking model and servicing of community assistance or cultural needs or materialise in fixed assets that serve these purposes. The mandatory endowment in respect of 2011 came to zero, so that no sums were earmarked to funding cooperative institutions of Grupo Mondragón or the Inter-Coop Education and Development Fund. €384 and €660k out of a total of €1,535k were earmarked for these purposes in 2011 on the basis of the estimated appropriation of surplus in respect of 2010.

40. Equity

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Share capital	656,853	485,338
Reserves	1,214,115	1,105,862
Less: Treasury shares	(1,288)	(1,289)
Income for the year attributed to Group	(509,268)	2,076
Less: Dividends and remuneration (Note 4)	(22,829)	(20,296)
	1,337,583	1,571,691

Share 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.

(Expressed in €' 000)

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 in 2012 and 2011 stood at 4%, respectively.

Movements in 2012 and 2011 in the Parent Entity's capital balance are set out below:

	2012	2011
Balances at the beginning of the year	485,338	481,509
Cooperative returns from the distribution of previous year's surplus	-	3,838
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	47,215	894
- Members and other	22,674	153
Less, liquidation of contributions owing to departures		
- Associate cooperatives	-	-
- Members and other	-	-
Additions due to business combination (note 1.2)	101,626	-
Transfers to capital classed as financial liabilities	-	(1,056)
Balances at the end of the year	656,853	485,338

At 31 December 2012, the only entity that directly or indirectly has a shareholding of 10% or more in the share capital of the Entity is Lagun-Aro, Entidad de Previsión Social Voluntaria, which owns 14.11% (17.37% in 2011).

In 2012, the Parent Entity issued equity twice.

i) The first issue was targeted at working members, collaborating members and Associate Cooperatives. The subscription period lasted from April to October 2012 and the total amount raised was €61,022k. The remuneration awarded on this first equity issue is a fixed annual rate of 7.5% until 15 December 2015, on which date remuneration will be 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. At 31 December 2012, subscriptions for this issue, still open at year-end, were running at €5,417k. The remuneration on this second equity issue is an annual rate of 6% until 30 December 2014, on which date remuneration will be aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

(Expressed in €' 000)

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, of 4 November 2005, introduced certain changes that affect Article 10 of Royal Decree 84/1993 whereby the Regulations on credit cooperatives are approved, which enable credit cooperatives to establish restrictions in their by-laws to the reimbursement of members' capital contributions. Therefore the Parent Entity's General Assembly in the meeting of 7 April 2006 agreed to amend Article 21 of the Parent Entity's bye-laws, governing the contribution reimbursement regime, such that when in one financial year, the amount of the refund of contributions exceeds 1% of share capital at the previous year end, any further reimbursements would be conditional on the Governing Body's favourable decision. As a result, at 31 December 2012 and 2011, 99% of share capital at the previous year end complies with the requirements to be considered equity while the remaining 1%, net of reimbursements for the year, is classed as Capital repayable on demand (Note 13.f.viii).

The New Entity's new bylaws stipulate that the reimbursement of member contributions shall be conditional upon both a favourable resolution by the Governing Council and the requirement that the reimbursement do not give rise to a shortfall in terms of minimum share capital, own funds or solvency ratios.

Movements in 2012 and 2011 in the balance of capital repayable on demand are set out below:

	2012	2011
Balance at beginning of the year	774	3,797
Transfer of capital	-	1,056
Reimbursement due to departures	(774)	(4,079)
Balance at the end of the year	-	774

In accordance with the Parent Entity's by-laws, minimum share capital, which must be fully paid, amounts to €10,000k.

At 31 December 2012 and 2011, the capital of Subsidiaries owned 10% or more by other entities external to the Group, either directly or through their subsidiaries, is as follows:

	% shareholding	
	2012	2011
Promega Nervión, S.L.	49.32%	-

(Expressed in €' 000)

At 31 December 2012 and 2011 equity instruments held by the Parent Entity of Subsidiaries and the nominal value of each together with the payments pending at that date are as follows:

	2012			2011		
	Number of shares	**Nominal value (€)**	**Payments pending**	**Number of shares**	**Nominal value (€)**	**Payments pending**
Seguros Lagun Aro Vida, S.A.	285,000	111,88	8,564	285,000	111,88	8,564
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.	200,000	10	-	200,000	10	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	1,237,500	6	-	1,237,500	6	-
Caja laboral Banca Seguros, S.L.U.	10,000	1	-	-	-	-
Sociedad Gestión Activos Caja Laboral, S.A.U.	995,889	1	-	-	-	-
Credigés, S.G.I.I.C., S.A.U.	700,000	1	-	-	-	-
Garkanba, S.L.	3,755,000	1	-	-	-	-
Piensos del Norte, S.A.	100,000	1	-	-	-	-
Promega Nervión, S.L.	740,000	10	-	-	-	-
Clarim Alava, S.L.	310	10	-	310	10	-
Clarim Navarra, S.L.	310	10	-	310	10	-
Clarim Valladolid, S.L.	310	10	-	310	10	-
Clarim Bizkaia, S.L.	3,006	1	-	3,006	1	-
Clarim Gipuzkoa, S.L.	300	10	-	300	10	-

Reserves

Set out below is a breakdown of the balance of reserves in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	**2011**
Accumulated reserves (losses):	1,222,238	1,109,355
Restatement reserves:	-	-
Parent entity	-	-
Reserves (losses) attributed to Parent Entity:	1,225,487	1,101,353
Other reserves	1,225,487	1,101,353
Reserves (losses) attributed to Subsidiaries	(3,249)	8,002
Reserves (losses) in companies measured under the equity method	(8,123)	(3,493)
Associates	59	3,898
Multigroup entities	(8,182)	(7,391)
	1,214,115	1,105,862

Movements in 2012 and 2011 in the balance under Reserves are as follows:

	2012	**2011**
Balance at the beginning of the year	1,105,862	1,093,439
Prior year surplus distribution	(18,220)	18,413
Additions due to business combination (note 1.2)	126,375	-
Share capital increases	98	28
Transactions between partners (Note 70,a)	-	(6,296)
Others	-	278
Balance at the close of the year	1,214,115	1,105,862

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 in the year is described in Note 4.

Mandatory Reserve Fund

At 31 December 2012 and 2011 Other reserves attributed to the Parent Entity include €996,782k and €996,681k, respectively which relate 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 1 of Bank of Spain Circular 4/2004, concerning the revaluation of property, plant and equipment, under which entities may measure at 1 January 2004 any asset included under property, plant and equipment at fair value, on condition that the assets are freely available. The amounts of such restatement are reclassified under Other reserves as and when the assets are written off the balance sheet, owing to their depreciation, impairment or disposal, in the proportion corresponding to the restatement made.

Voluntary Reserves

On 26 December 2011, the Governing Council 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-time transition to new accounting rules effectively 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 €88,947k at the General Assembly meeting of 28 April 2012. The Parent Entity registered the transfer at year-end 2011.

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The breakdown by Entity of the balance of Reserve (losses) attributable to subsidiaries at 31 December 2012 and 2011 is as follows:

	2012	2011
Seguros Lagun-Aro, Vida, S.A.	(3,587)	(4,670)
Caja Laboral Gestión, SGIIC, S.A.	1,161	1,109
Caja Laboral Pensiones, G.F.P., S.A.	144	66
Clarim Alava, S.L.	(379)	(102)
Clarim Navarra, S.L.	(899)	(241)
Clarim Valladolid, S.L.	(696)	(384)
Clarim Bizkaia, S.L.	571	779
Clarim Gipuzkoa, S.L.	-	-
Seguros Lagun-Aro, S.A.	200	11.474
Caja Laboral Kutxa Cartera, S.L.U.	236	(29)
	(3,249)	8,002

The breakdown of the balance of reserves/(losses) in entities measured under the equity method at 31 December 2012 and 2011 is as follows:

	2012	2011
Associates:	59	3,898
Sharpe Asset Management Ireland Limited	-	1,027
Bazkideak, S,C.P.	-	2,890
ICR Institutional Investment Management, S.G.I.I.C., S.A.	59	(19)
Multigroup entities:	(8,182)	(7,391)
Seguros Lagun-Aro, S.A.	-	-
Fomenclar, S.L.	(5,983)	(5,182)
Sociedades de Promoción Inmobiliaria (Appendix I)	(2,199)	(2,209)
	(8,123)	(3,493)

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Provided below is a breakdown by Entities of the contribution to Income attributed to the Group at 31 December 2012 and 2011:

	2012	2011
Parent entity	(529,022)	(426)
Subsidiaries	19,765	2,966
Seguros Lagun Aro Vida, S.A.	581	3,734
Caja Laboral Gestión S.G.I.I.C., S.A.	742	524
Caja Laboral Pensiones, G.F.P., S.A.	46	78
Clarim Alava, S.L.	147	(277)
Clarim Navarra, S.L.	(1,474)	(434)
Clarim Valladolid, S.L.	(3,668)	(312)
Clarim Bizkaia, S.L.	(1,056)	(208)
Clarim Gipuzkoa, S.L.	(369)	(139)
Seguros Lagun Aro, S.A.	23,388	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(13)	-
Caja Laboral, Bancaseguros, S.L.U.	1,282	-
Credigés, S.G.I.I.C., S.A.U.	260	-
Garkanba, S.L.	(204)	-
Piensos del Norte, S.A.	79	-
Promega Nervión, S.L.	24	-
Entities measured under the equity method	(11)	(464)
- Associates:	(11)	(2,840)
Sharpe Asset Management Ireland Limited	-	42
Bazkideak, S.C.P.	-	(2,890)
ICR Institutional Investment Management, S.G.I.I.C., S.A.	(11)	8
- Multigroup entities:	-	2,376
Seguros Lagun Aro, S.A.	-	3,227
Fomenclar, S.L.	-	(801)
Sociedades de Promoción Inmobiliaria (Appendix I)	-	(50)
IK – LKS Corproate, S.L.	-	-
	(509,268)	2,076

41. Measurement adjustments

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2012 and 2011:

	2012	2011
Available-for-sale financial assets:	9,894	(187,633)
- Debt securities	7,041	(59,701)
- Equity instruments	2,853	(127,932)
Cash flow hedges	941	1,268
Entities measured under the equity method	-	-
	10,835	(186,365)

(Expressed in €' 000)

The balance included under Equity measurement adjustments - Available-for-sale financial assets relates to the net amount of the tax effect of the variations in the fair value attributable to the Group relating to financial instruments that should be classified as an integral part of the Group's equity. At the time of the sale of financial assets, variations are recorded in the consolidated income statement. Movements during 2012 and 2011 are as follows:

	2012	2011
Balance at beginning of the year	(186,365)	(118,307)
Net movement charged /(credited) to income	95,569	17,095
Sales and redemptions	(4,766)	(5,192)
Impairment losses (net) charged against income statement	100,335	22,287
Net valuation gains / (losses)	95,290	(85,153)
Additions due to business combination (note 1.2)	6,341	-
Others	-	-
	10,835	(186,365)

In order to adequately evaluate the evolution of this heading, the exceptional circumstances in the financial markets during the 2011 and 2012 must be taken into consideration, as explained in Note 18.

The amount recorded under Equity measurement adjustments at 31 December 2012 and 2011 may be broken down by Entities as follows:

	2012	2011
Parent Entity	7,242	(182,930)
Subsidiaries:	3,593	(3,435)
- Seguros Lagun-Aro Vida, S.A.	9	(3,435)
- Seguros Lagun Aro, S.A.	3,584	-
Associates and Multigroup companies:	-	-
- Bazkideak, S.C.P.	-	-
	10,835	(186,365)

42. Minority interests

At 31 December 2012, this consolidated balance sheet heading corresponds to non-controlling interests in Promega Nervión, S.L.

As indicated in Note 70.a), during the year 2012, the Group acquired 100% of the sharecapital of Seguros Lagun Aro Vida, S.A., so that at 31 December 2011 there are no minorities.

	2012			2011		
	Minority interests		Results attributable to minority shareholders	Minority interests		Results attributable to minority shareholders
	Measurement adjustments	Remainder		Measurement adjustments	Remainder	
Promega Nervión, S.L.	-	3,048	-	-	-	-

(Expressed in €' 000)

Movements in 2012 and 2011 in Minority interests are set out below:

	2012	2011
Balance at beginning of the year	-	8,829
Share capital increases in subsidiaries	-	-
Share in income	-	-
Variation measurement adjustments	-	722
Dividends paid	-	(772)
Renoval through transactions between partner (Note 70.a))	-	(8,704)
Additions due to business combination (note 1.2)	3,048	-
Other	-	(75)
Balance at the end of the year	3,048	-

43. Tax situation

The Parent Entity and Investees file individual corporate income tax returns in accordance with tax legislation applicable to each.

In accordance with Provincial Regulation 2/97 of the Tax Regime applicable to Cooperatives in Guipuzcoa, there is a single tax rate of 28% applicable to tax protected cooperatives. For other national financial subsidiaries, the applicable tax rate is set at 28% in 2012 and 2011.

The legislation applicable to the 2012 tax return for most of the Group's investees is Guipuzcoa Provincial Law 7/1996, of 4 July, and Vizcaya Provincial Law 3/1996, of 27 March, depending on the territory in which each investee conducts its business operations and, therefore, files its income tax return. Provincial Law 8/2008 has the effect of definitively reducing the statutory corporate income tax rate applicable to entities with tax domicile in Guipuzcoa to 28%.

The Directors of the Parent and investee entities have calculated the amounts associated with this tax in 2011, as well as those open to inspection in accordance with regional legislation in force at the end of each year.

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(Expressed in €' 000)

The reconciliation for the Parent Entity of accounting income for 2012 and 2011 to the corporate income tax base is as follows:

	2012	2012 (*)	2011
Accounting income for the year before taxes	(746,901)	22,339	48
Permanent differences:			
Increases			
- Non-deductible expenses	4,376	4,144	340
- Other items	-	-	-
Decreases			
- Mandatory allocation to Development and Education Fund	-	-	-
- Allocation to the Inter-Coop Company Fund	-	-	(2,303)
- Deductible gross interest paid on account in respect of contributions to share capital	(22,087)	(22,087)	(19,407)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	-	-	-
- Capital gains reinvested in fixed assets used in the business	-	-	-
- Tax credits used	-	-	-
- Other items	1	1	(29)
Taxable income (tax loss)	(764,611)	4,397	(21,351)
Temporary differences			
- Arising in the present year	-	-	-
- Arising in previous years	5,727	(600)	(4,466)
Tax base	(758,884)	3,797	(25,817)
Gross tax payable (28%)	(212,488)	1,063	(7,229)
Deductions and allowances	(3,759)	(979)	(13,232)
Net tax payable	(216,247)	84	(20,461)
Withholdings and payments on account	(1,906)	(1,906)	(3,077)
Corporate income tax payable / (refundable)	(218,153)	(1,822)	(23,538)

The breakdown of corporate income tax in the consolidated income statement for 2012 and 2011 is as follows:

	2012	2012 (*)	2011
Accounting base at the applicable rate	(214,091)	1,231	(5,979)
Deductions and allowances	(3,759)	(979)	(13,232)
Other items	(466)	-	(148)
	(218,316)	252	(19,359)

(*) Reconciliation of the accounting profit of the New Entity for the period elapsing between 2 November and 31 December 2012, the New Entity's first tax period.

(Expressed in €' 000)

In 2008 and 2010, the Parent Entity availed of tax relief provided on the reinvestment of capital gains generated by the sale of fixed assets in the amount of €431k and €255k, respectively, triggering the obligation to reinvest €1,115k and €1,930k, respectively, in fixed assets within the three years following application for the tax relief. These investment commitments were upheld in full by means of fixed asset investments materialising in 2009, 2010 and 2011.

The breakdown of 'Corporate income tax' in the 2012 and 2011 consolidated income statements is as follows:

	2012	2011
Accounting profit at the statutory rate	(214,091)	(5,979)
Tax credits and tax relief	(3,759)	(13,232)
Other items	(466)	(148)
Corporate income tax, Parent Entity	(218,316)	(19,359)
Corporate income tax, Investee Entities		
Accounting profit at the statutory rate	9,225	1,454
Other items	-	-
	(209,091)	(17,905)

In addition to the Corporate Income Tax shown in the consolidated income statement, deferred taxes have been generated or reversed as a result of measurement adjustments in respect of Equity for the years 2010 and 2009. The items and amounts in question are shown below:

	2012	2011
Measurement adjustments:		
Available-for-sale financial assets	74,223	(26,679)
	74,223	(26,679)

At 31 December 2012 and 2011, 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 for offset	2012	2011
Unused tax losses	2027	787,443	25,818
		787,443	25,818

(Expressed in €' 000)

At 31 December 2012 and 2011, 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 for offset	2012	2011
Deductions for double taxation	2027	14,754	13,116
Deductions with limit over gross tax payable	2027	12,068	10,044
Deductions without limit over gross tax payable	2027	641	4,333
		27,463	27,493

The amounts of unused tax loss and unused tax credits contributed by Ipar Kutxa Rural, S.Coop. de Crédito as part of the business combination amounted to €31,732k and €391k, respectively.

The deductions without limit over gross tax payable derive mainly from tax relief on R&D investments made by the Parent Entity.

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 34).

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.

Merger between Caja Laboral and Ipar Kutxa

As indicated in note 1, on 30 June 2012, the members of Caja Laboral Popular Coop. de Crédito e Ipar Kutxa Rural, S. Coop. de Crédito, in general assembly, approved the Project Terms of Merger by means of the creation of a New Credit Cooperative under which both entities' respective assets, liabilities and members were transferred, with the New Entity acquiring, by means of universal succession, all of the rights and obligations of the formerly existing entities. In keeping with the Project Terms of Merger, the date from which the operations of the merged entities are deemed to have been performed by the New Credit Cooperative is 2 November 2012 for accounting purposes.

Note that, in keeping with prevailing tax legislation, Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito are obliged to present, respectively, an income tax return for the period elapsing between 1 January and 1 November 2012 (the date of dissolution of both cooperatives without going into liquidation). In addition, the amounts of unused tax losses and unused tax credits and/or any tax obligations arising from the presentation of such returns have been transferred to the New Credit Cooperative.

The abovementioned transactions have availed of the tax neutral regime provided for in Chapter X of Title VIII for qualifying mergers, spin-offs, asset contributions, exchanges of shares and global assignment of assets and liabilities provided for in Guipuzcoa Provincial Law 7/1996 and Vizcaya Provincial Law 3/1996 on corporate income tax insofar as they respectively apply.

(Expressed in €' 000)

In addition, in keeping with the terms of article 100 of Guipuzcoa Provincial Law 7/1996, of 4 July, on local corporate income tax, the required acquiree disclosures are provided below:

i) Year in which the transferor acquired the transferred assets subject to depreciation

The table below summarises the carrying amounts at 31 December 2012, by years of acquisition, of the depreciable assets transferred by Ipar Kutxa Rural, S. Coop. de Crédito to the New Credit Cooperative.

	Thousand euro		
	Gross amount	**Accumulated depreciation**	**Carrying amount**
1960 or earlier	-	-	-
1961 - 1970	1,787	(720)	1,067
1971 - 1980	10,137	(3,663)	6,474
1981 - 1990	5,275	(2,555)	2,720
1991 - 2000	19,158	(14,003)	5,155
2001 - 2010	48,399	(31,227)	17,172
2011 - 2012	11,721	(883)	10,838
	96,477	**(53,051)**	**43,426**

Given the large number of assets transferred, Appendix III provides full disclosure of the depreciable assets transferred by category and the years in which they were acquired.

ii) Last transferor balance sheet date

Note 1.2 above includes the balance sheet of Ipar Kutxa Rural, S.Coop. de Crédito at 1 November 2012, the date on which it was dissolved without going into liquidation.

iii) List of assets acquired that have been recognised at a value other than their carrying amounts in the transferor's books

Note 1.2 above details all of the assets and liabilities acquired in the business combination, the adjustments made to estimate the fair values of such assets and liabilities and an explanation of the main assumptions and methodologies used to calculate these fair values.

iv) Itemisation of tax credits availed of by the transferor in respect of which the entity must assume compliance with certain requirements

In 2011, 2010, 2009 and 2008 Ipar Kutxa Rural, S. Coop. de Crédito availed of tax relief provided for on the reinvestment of capital gains in article 22 of Vizcaya Provincial Law 3/1996, of 26 June. The gains so deducted amounted to €20k, €65k, €48k and €389k, respectively. The investment commitments made as a result were upheld in full by means of fixed asset investments materialising in 2010, 2009, 2008 and 2007.

At 31 December 2012, the New Entity has its tax returns open to inspection for 2009-2012 in respect of all major applicable taxes, expect for income tax, for which it has its books open from 1 January 2006.

The Directors of the Parent consider that any tax liabilities with respect to tax returns open to inspection will not have a material impact on the 2012 consolidated financial statements. Given the various possible interpretations of the tax regulations applicable to the Group's business transactions, tax contingencies could arise with respect to the years open to inspection. However, the Parent Entity's directors believe that the likelihood that any such contingencies could arise is remote and that, at any rate, any resultant tax liability would not have a material impact on the Group's financial statements taken as a whole.

44. Fair value of balance sheet assets and liabilities

i) Fair value of financial assets and liabilities

As mentioned in Note 13, the Group's financial assets are recorded in the consolidated balance sheet at their fair value, with the exception of Credits, loans and discounts, the Held-to-maturity investment portfolio and Equity instruments of which its market value cannot be reliability estimated. 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.

(Expressed in €' 000)

The following table summarizes the fair values at the end of 2012 and 2011 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2012

	Total Balance	Fair Value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash on hand and on deposits at central banks	354,828	354,828	-	-	354,828
Trading portfolio	135,096	135,096	126,337	7,549	1,210
Other financial assets at fair value through profit and loss	15,950	15,950	3,507	2,533	9,910
Available-for-sale financial assets	4,017,882	3,975,184	3,215,632	241,823	517,729
Credit investments	16,867,185	16,867,185	-	-	16,867,185
Held-to-maturity investments	1,868,790	1,809,777	1,784,720	25,057	-
Derivatives held for hedging	447,458	447,458	-	447,458	-
TOTAL FINANCIAL ASSETS	**23,707,189**	**23,605,478**	**5,130,196**	**724,420**	**17,750,862**
Trading portfolio	12,505	12,505	1,771	10,734	-
Financial liabilities at amortized cost	22,804,522	22,804,522	-	-	22,804,522
Derivatives held for hedging	81,193	81,193	-	81,193	-
TOTAL FINANCIAL LIABILITIES	**22,898,220**	**22,898,220**	**1,771**	**91,927**	**22,784,056**

2011

	Total Balance	Fair Value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash on hand and on deposits at central banks	184,647	184,647	-	-	184,647
Trading portfolio	118,547	118,547	105,045	12,397	1,105
Other financial assets at fair value through profit and loss	25,905	25,905	2,700	2,219	20,986
Available-for-sale financial assets	3,785,712	3,785,712	1,690,156	197,476	1,898,080
Credit investments	15,478,157	15,478,157	-	-	15,478,157
Held-to-maturity investments	461,398	425,867	405,205	20,662	-
Derivatives held for hedging	359,375	359,375	-	359,375	-
TOTAL FINANCIAL ASSETS	**20,413,741**	**20,378,210**	**2,203,106**	**592,129**	**17,582,975**
Trading portfolio	20,241	20,241	897	19,344	-
Financial liabilities at amortized cost	19,347,938	19,347,938	-	-	19,347,938
Derivatives held for hedging	42,536	42,536	-	42,536	-
TOTAL FINANCIAL LIABILITIES	**19,410,715**	**19,410,715**	**897**	**61,880**	**19,347,938**

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 on hand and on deposits at central banks: 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 whose returns are benchmarked to trends in interest rates were measured using valuation techniques based on discounted cash flow analysis taking the interest rate curve and market spreads for similar instruments as inputs (Level 2). The value of all other debt securities was measured using prices calculated by authorised external valuation agents (Level 3). At 31 December 2011, an amount of €1,408,689k, corresponding to the mortgage backed bonds issued by the Parent Entity through Fondo Cédulas TDA17, F.T.A., IM Cédulas 15, F.T.A. and Cédulas TDA21, F.T.A. (note 25), were measured using Level 3 inputs. The Parent Entity cancelled these bonds ahead of maturity in 2012, so that no balances in this respect were measuring using Level 3 inputs at year-end 2012.

- 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 (Level 3).

  In addition, at 31 de December 2012 and 2011 there are unlisted equity instruments classified in the portfolio of Available for Sale Assets that are recognized at historic cost totaling €43,298k and €24,169k, respectively, which have therefore not taken into consideration in the above table.

- Customer loans: The carrying amount of these loans is considered a good proxy for their fair value as the vast majority of loans granted by the former Caja Laboral are benchmarked to floating rates and/or, if not, they mature within 12 months of the reporting date. 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.

  However, as detailed in note 1.2 above, the various assets and liabilities of the Ipar Kutxa Rural S. Coop. de Crédito Group (the acquiree for accounting purposes) were recognised at fair value on the date of the business combination, in keeping with the accounting criteria also described in note 1.2. Note that where necessary, in keeping with prevailing accounting regulations, the amounts at which the acquiree's customer loans were initially recognised have been restated as of 31 December 2012 to reflect impairment losses incurred between the date of initial recognition and year-end. As a result, the directors consider that there are no material differences between these loans' carrying amounts and fair values.

(Expressed in €' 000)

- 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 less that 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 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.

iii) Fair value of non-financial assets

The comparison at 31 December 2012 and 2011 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:

	2012		2011	
	Value recorded	**Fair value**	**Value recorded**	**Fair value**
Assets				
Property, plant and equipment:				
For own use and investment properties	420,690	444,402	368,875	385,235
Non-current assets for sale	317,892	317,892	368,591	368,591
Inventories	30,675	50,264	147	147

The fair value of these assets has been determined as follows:

- At 31 December 2012 the fair value of the properties included under the headings Property, plant and equipment for own use and Investment properties was calculated, at 38% of the carrying cost through valuations, performed in 2012 by independent entities, 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.

(Expressed in €' 000)

Note, as detailed in note 1.2 above, the various assets and liabilities of the Ipar Kutxa Rural S. Coop. de Crédito Group (the acquiree for accounting purposes) were recognised at fair value on the date of the business combination, in keeping with the accounting criteria also described in note 1.2; specifically the properties included within property and equipment were measured using appraisals performed by independent experts duly registered with the Bank of Spain. As a result, the directors consider that there are no material differences between these assets' carrying amounts and fair values.

At 31 December 2011, the fair values of the properties included within Property and equipment for own use and Investment properties were calculated using appraisals performed by independent experts in respect of 4.3% of their carrying amount, as required under then-prevailing Bank of Spain regulations. The other properties were measured by updating the 2010 valuations (a mix of appraisals and internal valuations), adjusted by a correction factor objectively estimated by the Parent Entity's Directors on the basis of the prevailing environment and market outlook.

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 that are located in Spain was estimated, in light of expected recoverability, by applying the parameters established in Section IV of Annex IX of Bank of Spain Circular 4/2004 and, for real estate assets held at 31 December 2011, the criteria laid down in Section V of Annex IX of this same Circular. In arriving at these valuations, the directors also factored in the appraisals performed by appraisers duly registered with the Bank of Spain, as stipulated in Ministerial Order ECO/805/2003, of 27 March, as well as the prevailing real estate market situation and economic climate.

45. Contingent risks

The breakdown of this heading at 31 December 2012 and 2011 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:

	2012	2011
Financial guarantees	96,737	97,757
Other guarantees and sureties	305,511	344,165
Irrevocable documentary credits	25,798	31,686
	428,046	473,608

(Expressed in €' 000)

46. Contingent commitments

A breakdown of this heading at 31 December 2012 and 2011 is as follows:

	2012	2011
Balances drawable by third parties:	1,012,779	976,174
Credit institutions	807	1,217
The Public Administrations sector	56,577	39,628
Other resident sectors	955,368	934,780
Purchase of public debt	-	528
Non-residents	27	21
Securities subscribed pending disbursement	9,402	9,846
Other contingent commitments:	112,301	80,699
Documents handed over to Clearing Houses	112,301	80,699
	1,134,482	1,066,719

47. Interest and similar revenue

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Deposits at central banks	1,311	2,766
Deposits at credit institutions	8,573	9,703
Money market transactions	1,296	-
Customer loans	415,730	423,063
Debt securities	174,601	110,785
Doubtful assets	807	814
Financial income from insurance activities	23,738	19,708
Rectification of revenues owing to hedging operations	(2,228)	(2,126)
Other interest	758	403
	624,586	565,116

The distribution by geographical area of the number of the Group's bank branches at 31 December 2021 and 2011 is as follows:

	2012	2011
Bizkaia	155	90
Gipuzkoa	83	78
Araba	52	37
Navarra	47	47
Expansion network	113	111
	450	363

(Expressed in €' 000)

48. Interest and similar charges

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Deposits from central banks	17,598	825
Credit institution deposits	5,699	9,551
Operations on the monetary market	69	292
Customer funds	333,715	348,692
Marketable debt securities	4,750	7,309
Rectification of expenses owing to hedging operations	(90,240)	(80,142)
Financial expense from insurance activities	11,093	2,041
Other interest	-	4
Cost of interest of retirement benefit obligations	-	1
	282,684	288,573

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 and 28).

49. Return on equity instruments

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Other equity instruments:	7,577	9,219
Shares	7,577	9,219
	7,577	9,219

50. Results in Entities carried under the equity method

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Associates	(11)	(2,840)
Multigroup entities	-	2,376
	(11)	(464)

(Expressed in €' 000)

51. Fees collected

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
For contingent exposures	5,136	5,664
For contingent commitments	993	792
For currency and foreign bank notes exchange	127	107
For collection and payment services	47,793	45,656
For securities services:	13,841	16,199
Underwriting and placement of securities	328	1,713
Purchase-sale of securities	712	923
Administration and custody	1,271	1,403
Asset management	11,530	12,160
For marketing of non-bank financial products:	26,402	18,799
Investment funds	1,384	788
Pension funds	15,318	12,050
Insurance	8,630	5,961
Other fees	1,070	-
For contingent exposures	7,769	8,954
	102,061	96,171

52. Fees paid

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Brokerage in asset and liability transactions	79	121
Fees assigned to other correspondent entities:	6,122	5,854
For collection or return of bills	299	286
For other items	5,823	5,568
Fees paid on securities operations	889	699
With market intermediaries	869	696
Other	20	3
Other fees	7,487	2,643
	14,577	9,317

(Expressed in €' 000)

53. Results of financial operations (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Trading portfolio	861	893
Other financial instruments at fair value through profit and loss	1,523	(3,194)
Available-for-sale financial assets	6,620	7,211
Hedging derivatives	61,095	(112,155)
Other	(62,504)	111,720
	7,595	4,475
Gains	1,440,409	507,364
Losses	(1,432,814)	(502,889)
	7,595	4,475

"Results of financial operations (net) – Hedging derivatives" refers to the measurement adjustments of the hedging derivatives for fair values hedges, for the years 2012 and 2011. As "Results of financial operations (net) – Other" refers to the measurement adjustments of the hedge item designated as hedge for fair value (Note 13.e).

54. Exchange differences (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Gains	261,207	304,847
Losses	(260,730)	(303,781)
	477	1,066

55. Other operating revenue

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Revenues from insurance and reinsurance policies issued	196,276	85,411
Sales and revenues from non-financial services rendered	6,348	2,310
Other operating revenues	218,117	89,200
Financial fees offsetting costs	3,178	3,181
Revenues from other operating leases (net)	5,689	6,797
Inventory variations in real estate assets	204,990	74,308
Other	4,260	4,914
	420,741	176,921

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56. Other operating charges

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2012 and 2011 and is as follows:

	2012	2011
Expenses for insurance and reinsurance policies	132,314	87,469
Other operating expenses	238,983	89,286
Contribution to Deposits Guarantee Fund (Note 10)	24,246	9,365
Purchases and expenses related to real estate assets	208,426	75,250
Other	6,311	4,671
Change in inventories	3,379	-
	374,676	176,755

57. Administrative expenses

a) Staff costs

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Salaries and bonuses paid to serving employees	118,989	100,421
Social security contributions	6,961	1,958
Severance payments	38	88
Staff training expenses	896	856
Other staff costs	420	417
	127,304	103,740

Al 31 de diciembre de 2012 y 2011 existen remuneraciones relacionadas con la entrega de servicios propios de la actividad de la Entidad Dominante, según el siguiente detalle:

	2012			2011		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	810	1,040	230	1,014	1,744	730

There is remuneration relating to the delivery of services corresponding to the Parent Entity's activity. A breakdown is provided below:

	2012	2011
Directors	52	46
Managers	534	537
Specialists	805	781
Administrative personnel	990	945
	2,381	2,309

(Expressed in €' 000)

At 31 December 2012 and 2011 the Group's personnel fell into the following categories, by gender and location:

	Number of employees					
	2012			2011		
	Women	Men	Total	Women	Men	Total
Directors	2	55	57	2	44	46
Managers	135	438	573	130	397	527
Specialists	451	412	863	428	361	789
Administrative personnel	666	416	1,082	581	352	933
	1,254	1,321	2,575	1,141	1,154	2,295
Parent Entity	948	1,173	2,121	865	1,038	1,903
All other Investee Entities:						
Subsidiaries	306	148	454	276	116	392
	1,254	1,321	2,575	1,141	1,154	2,295

The breakdown of the number of members of the Governing Body of the Parent Entity by gender, at 31 December 2012 and 2011, was as follows:

	Number of members					
	2012			2011		
	Women	Men	Total	Women	Men	Total
Members of Governing Body	4	11	15	4	8	12

b) Other general administrative expenses

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
For buildings, installations and materials:	35,392	18,087
Rentals	23,454	6,880
Maintenance of fixed assets	7,115	6,464
Lighting, water and heating	3,311	2,826
Forms and office materials	1,512	1,917
Data processing	6,010	5,529
Communications	6,134	6,373
Advertising and publicity	7,191	7,081
Legal costs and lawyers' fees	3,499	4,784
Technical reports	10,472	11,553
Surveillance and transfer of funds services	1,937	1,817
Insurance and self-insurance premiums	787	782
By Governing and Control Bodies	278	144
Entertainment and staff travel expenses	1,933	1,794
Association charges	363	240
Administrative services subcontracted	5,305	5,523
Rates and taxes	1,532	1,490
Other expenses	2,508	705
	83,341	65,902

(Expressed in €' 000)

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.

58. Amortization

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Property, plant and equipment:	17,612	21,423
Property, plant and equipment	16,860	21,072
For own use	12,225	15,486
Assigned under operating leases	4,635	5,586
Investment properties	752	351
Intangible assets	110	334
	17,722	21,757

59. Provisions (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Allocations to pension funds and similar obligations:	1,081	1,691
Early retirement (Note 38)	1,081	1,691
Provisions for contingent exposures and commitments:	27,969	1,130
Contingent exposures (Note 38)	27,969	1,130
Provisions for taxes (Note 38)	4,143	-
Other provisions	4,025	-
	37,218	2,821

60. Financial asset impairment losses (net)

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2012 and 2011 and is as follows:

	2012	2011
Credits, loans and discounts (Note 26)	558,228	131,973
Loans	558,228	131,973
Other financial instruments not stated at fair value with changes in income statement	139,354	30,953
Available-for-sale financial assets (Note 25)	139,354	30,953
Debt securities	(6,425)	17,444
Equity instruments	145,779	13,509
	697,582	162,926

(Expressed in €' 000)

61. Other asset impairment losses (net)

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2012 and 2011 and is as follows:

	2012	2011
Other asset	30,425	-
Associates (Note 30)	-	-
Multigroup entities (Note 30)	-	-
Inventories	-	-
Property, plant and equipment (Note 32)	30,812	-
Others	(387)	-
	30,425	-

62. Gain/(loss) on the disposal of assets not classified as non-current available-for-sale

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2012 at 2011 is as follows:

	2012	2011
Net gains/ losses on the sale of property, plant and equipment	122	(279)
Revaluation of the holding in Seguros Lagun Aro, S.A. held before the business combination (Note 70)	-	16,248
Other items	(520)	3,059
	(398)	19,028

63. Gain/(loss) on non-current available-for-sale assets not classified as interrupted operations

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2012 and 2011 and is as follows:

	2012	2011
Net gains/(losses) on sale of non-current assets	(11,568)	826
Impairment losses of Non-current assets for sale (Note 29)	(203,890)	(56,272)
	215,458	(55,446)

64. Mandatory appropriation to community projects and social funds

The amounts recorded under this heading of the consolidated income statements for the years ended 31 December 2012 and 2011 totalling €0k, respectively relate to the mandatory appropriation to the Promotion and Education Fund in accordance with the Law on Cooperatives and the Parent Entity's by-laws (Note 4).

(Expressed in €' 000)

65. Result attributed to minority interests

The Group did not record any surplus attributable to minority interests in either 2012 or 2011.

66. Transactions with Subsidiaries, Multigroup entities and Associates

The significant balances recorded at 31 December 2012 and 2011 between the Parent Entity and Subsidiaries and the effect of the transactions between them during the years then ended have been eliminated on consolidation, Balances at 31 December 2012 and 2011 relating to asset and liability transactions with Multigroup entities and Associates may be summarised as follows:

	2012	**2011**
Balances		
Customer funds	10,525	6,377
Non-current assets for sale (Credit investments as of 31 December 2010)	224,278	247,971
Guarantees	6,566	13,501

The most significant transactions carried out in 2012 and 2011 with Multigroup entities and Associates are as follows:

	2012	**2011**
Interest and similar charges	1	3
Fees collected	75	111
Interest and similar income	748	2,098

67. Other information

A breakdown of customer funds off the Group's consolidated balance sheet at 31 December 2012 and 2011 is as follows:

	2012	**2011**
Managed by the Entity's Group:	3,299,519	2,431,242
Investment Funds and companies	1,503,551	997,101
Pension funds	1,505,431	1,130,823
Insurance contract saving	290,537	303,318
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	114,645	84,836
	3,414,164	2,516,078

(Expressed in €' 000)

In 2012 and 2011 the Group has carried out the following investment services on account of third parties:

	2012	2011
Brokering in securities market transactions	1,612,774	1,758,487
Deposit of securities owned by third parties	3,938,781	2,960,843

The total amount of debt securities assigned by the Group at 31 December 2012 and 2011 is €203,263k and €487,542k, respectively, of which €203,263k and €465,263k, respectively, had been assigned to third parties and are recognized under the heading "Financial liabilities at amortized cost - Customer funds" in the consolidated balance sheet. The rest of the balance at the year-end is recorded under the heading "Financial liabilities at amortized cost by credit institutions Deposits" in the consolidated balance sheet totaling €0k and €22,279k at 31 December 2012 and 2011, respectively.

68. 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 hereafter 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, 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.

Additionally, in line with the content of Royal Decree 716/2009, of 24 April, which develops certain aspects of Law 2/1981, of 25 March, on the regulation of the mortgage market and other norms of the mortgage financial system, the Board of Directors states that, on 31 December 2012, the Parent Entity avails of a series of policies and procedures to guarantee compliance with the norm regulating the mortgage market, for which it is responsible. 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.

Concretely, 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 content of Ministerial Order OM ECO/805/2003 of 27 March is applied

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 (value/risk), and various policies are established classified as problematic (doubtful, substandard or adjudicated) and those classified as normal or for special monitoring.

a) Asset operations

The nominal value of the whole mortgage loans and credits portfolio pending at 31 December 2011 and 2010 amounts to €11,082 million and €12,137 million, respectively, of which those that comply with the characteristics of being eligible (without considering the limits to their computation established in article 12 of the mentioned Royal Decree) amount to €7,159 and €7,396 million, respectively.

(Expressed in €' 000)

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:

	Million euros	
	2012	2011
	Nominal value	Nominal value
Total loans (a)	**13,887**	**12,323**
Participations in mortgages issued	**-**	**11**
Of which: Loans held on the balance sheet	-	11
Transfer certificates of mortgages issued	**1,131**	**1,230**
Of which: Loans held on the balance sheet	1,131	1,230
Mortgage loans used as guarantee for financing received	-	-
Loans that back the issue of mortgage bonds and securities	**12,756**	**11,082**
Non-eligible loans (b)	3,966	3,923
Comply with the requirements to be eligible except for the limit in article 5,1 of RD 716/2009	2,459	2,544
Rest	1,507	1,379
Eligible loans (c)	8,790	7,159
Amounts not computable (d)	6	3
Computable amounts	8,784	7,156
Loans that cover mortgage bond issues	-	-
Loans apt for coverage of mortgage securities	8,784	7,156

(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 guarantees not transferred either to third parties or backing financing received that do not comply with the requirements of article 3 of Royal Decree716/2009 to be eligible for the issue of mortgage bonds or securities.

(c) 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 2 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.

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The following table shows a breakdown of the mortgage loans and credits according to the various attributes of these amounts at 31 December 2012 and 2011:

	Million euros			
	2012		2011	
	Loans that back the issue of mortgage bonds and securities (a)	*Of which : eligible loans* (b)	Loans that back the issue of mortgage bonds and securities (a))	*Of which : eligible loans* (b))
TOTAL	**12,756**	**8,790**	**11,082**	**7,159**
1 ORIGIN OF THE OPERATIONS	**12,756**	**8,790**	**11,082**	**7,159**
1.1 Originated by the entity	12,523	8,611	10,968	7,084
1.2 Subrogated from other entities	233	179	114	75
1.3 Rest	-	-	-	-
2 CURRENCY	**12,756**	**8,790**	**11,082**	**7,159**
2,1 Euro	12,756	8,790	11,082	7,159
2.2 Rest of currencies	-	-	-	-
3 PAYMENT SITUATION	**12,756**	**8,790**	**11,082**	**7,159**
3.1 Normal in payment	11,651	8,438	9,991	6,849
3.2 Other situations	1,105	352	1,091	310
4 AVERAGE RESIDUAL MATURITY	**12,756**	**8,790**	**11,082**	**7,159**
4.1 Up to ten years	3,905	2,190	3,814	1,960
4.2 Over ten years up to twenty years	6,800	5,138	5,926	4,408
4.3 Over twenty years up to thirty years	1,436	1,060	1,342	791
4.4 More than thirty years	615	402	-	
5 INTEREST RATES	**12,756**	**8,790**	**11,082**	**7,159**
5.1 Fixed	51	3	49	1
5.2 Variable	2,081	1,531	-	-
5.3 Mixed	10,624	7,256	11,033	7,158
6 OWNERS	**12,756**	**8,790**	**11,082**	**7,159**
6.1 Companies y and business persons	2,008	160	1,927	2
Of which: Real estate promotions	*774*	*47*	*850*	-
6.2 Rest of persons and ISFLSH	10,748	8,630	9,155	7,157
7 TYPE OF GUARANTEE	**12,756**	**8,790**	**11,082**	**7,159**
7.1 Assets/finished buildings	12,190	8,734	10,348	7,110
7.1.1 Homes	11,357	8,566	9,756	7,087
Of which: Homes with official protection	*992*	*681*	*947*	*619*
7.1.2 Commercial	329	86	224	15
7.1.3 Rest	504	82	368	8
7.2 Assets/Buildings under construction	115	5	134	-
7.2.1 Homes	115	5	132	-
Of which: Homes with official protection	*30*	-	*45*	-
7.2.2 Commercial	-	-	-	-
7.2.3 Rest	-	-	2	-
7.3 Land	451	51	600	49
7.3.1 Developed	187	27	147	4
7.3.2 Rest	264	24	453	45

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 loan sor securities in line with article 3 of Royal Decree 716/2009, without deducting the limits for computing established in article 12 of Royal Decree 716/2009.

(Expressed in €' 000)

The amount that, in line with the criteria set in article 12 of the above mentioned Royal Decree is computable to allow coverage to the issue of mortgage bonds at 31 December 2012 and 2011 amounts to €8,784 million and €7,156 million, respectively.

In reference to the nominal and updated values, this latter calculated in line with article 23 of the mentioned Royal Decree, at 31 December 2012 and 2011, the Parent Entity had no mortgage bonds issued, and the nominal value of the mortgage loans and credits that, although still appearing in the portfolio, were mobilised through mortgage participations or mortgage transmission certificates at 31 December 2012 and 2011 amount to €1,131 million and €1,241 million, respectively.

The nominal value of all the non-eligible mortgage loans and credits amounted to €3,966 million at 31 December 2012 (€3,923 million at 31 December de 2011), of which, not being eligible for not complying with the limits set in article 5 of Royal Decree 716/2009, but do comply with the rest of the requisites required to be eligible (shown in article 4 of the norm) amounted to €2,459 million and €2,544 million at the close of the years 2012 and 2011, 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 2012 and 2011, is as follows:

At 31 December 2012

	Million euros				
	Risk on the latest valuation available for the mortgage market purposes (*loan to value*) (b)				
	2012				
	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%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or securities (a)	**2,313**	**2,863**	**3,614**	**-**	**8,790**
- On homes	2,220	2,751	3,566	-	8,537
- On others	93	112	48	-	253

At 31 December 2011

	Million euros				
	Risk on the latest valuation available for the mortgage market purposes (*loan to value*) (b)				
	2011				
	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%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or securities (a)	**1,822**	**2,283**	**3,054**	**-**	**7,159**
- On homes	1,801	2,249	3,023	-	7,073
- On others	21	34	31	-	86

(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 2 of Royal Decree 716/2009.
(b) The loan to value is the ration resulting from dividing the current risk on the date of the information by the information on the value of the latest valuation.

(Expressed in €' 000)

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 2011 and 2010 are as follows:

	Million Euros	
	Eligible loans (a)	**Non-eligible loans (b)**
1 Opening balance 2011	7,396	4,741
2 Removal from the perimeter	760	1,278
2.1 Cancellation at maturity	10	37
2.2 Advanced cancellations	98	114
2.3 Subrogated to other entities	-	-
2.4 Rest	652	1,127
3 Entries to the perimeter	523	460
3.1 Originated by the entity	326	201
3.2 Subrogated from other entities	2	1
3.3 Rest	195	258
4 Closing balance 2011	7,159	3,923
1 Opening balance 2012	7,159	3,923
2 Removal from the perimeter	726	957
2.1 Cancellation at maturity	7	86
2.2 Advanced cancellations	72	217
2.3 Subrogated to other entities	-	-
2.4 Rest	647	654
3 Entries to the perimeter	2,357	1,000
3.1 Originated by the entity	397	249
3.2 Subrogated from other entities	1	-
3.3 Rest	426	200
	1,533	551
4 Closing balance 2012	8,790	3,966

(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 2 of Royal Decree 716/2009.

(b) Loans with a mortgage guarantee not transferred to either third parties or affected to financing received that do not comply with the requirements of article 3 of Royal Decree 716/2009 to be eligible for the issue of mortgage bonds or securities.

The balances available of mortgage loans and credits that back the issue of Mortgage bonds and securities at 31 December 2012 and 2011 are as follows:

	Euro Million	
	2012	2011
	Balances available. Nominal value (a)	Balances available. Nominal value (a)
Mortgage loans that back the issue of mortgage bonds and securities	**183**	**164**
- Potentially eligible (b)	46	-
- Non-eligible	137	164

(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 2012 and 2011 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 67.05% and 63.89%, respectively, compared to the maximum of 80% established in the Article of Law 2/1981, of 25 March, on the Regulation of the Mortgage Market.

(Expressed in €' 000)

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 2012 and 2011:

	Million €			
	2012		2011	
Mortgages	**Nominal value**	**Average residual maturity (in months)**	**Nominal value**	**Average residual maturity (in months)**
1 Mortgage bonds issued live	**-**		**-**	
2 Mortgage warrants issued	**5,125**		**4,800**	
Of which: not registered in liabilities on balance sheet	1,400			
2,1 Securities representing debt. Issued through public offer	1,550		75	
2.1.1 Residual maturity up to one year	-		-	
2.1.2 Residual maturity greater than one year and up to two years	-		-	
2.1.3 Residual maturity greater than two years and up to three years	-		-	
2.1.4 Residual maturity greater than three years and up to five years	1,400		-	
2.1.5 Residual maturity greater than five years and up to ten years	150		75	
2.1.6 Residual maturity greater than ten years	-		-	
2.2 Securities representing debt. Rest of issues	3,575		4,725	
2.2.1 Residual maturity up to one year	450		-	
2.2.2 Residual maturity greater than one year and up to two years	700		1,300	
2.2.3 Residual maturity greater than two years and up to three years	600		1,200	
2.2.4 Residual maturity greater than three years and up to five years	600		1,100	
2.2.5 Residual maturity greater than five years and up to ten years	1,225		1,125	
2.2.6 Residual maturity greater than ten years	-		-	
2.3 Deposits	-		-	
2.3.1 Residual maturity up to one year	-		-	
2.3.2 Residual maturity greater than one year and up to two years	-		-	
2.3.3 Residual maturity greater than two years and up to three years	-		-	
2.3.4 Residual maturity greater than three years and up to five years	-		-	
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)	1,131	253	1,230	261
4,1 Issued through public offer	-	-	-	-
4.2 Rest of issues	1,131	253	1,230	261

(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 €' 000)

69. Information on the deferral of payments made to suppliers. Additional disposition number three " Duty of information" of Law 15/2010, of 5 July

Based upon the obligation to inform, established in Law 15/2010, of 5 July, the modification of Law 3/2004, de 29 of December, establishing measures to combat payment default in commercial operations, and bearing in mind the Second Transitory Rule of the Resolution dated 29 December 2010, by the Institute of Accounts and Audits, the breakdown of payments in commercial operations performed by the Group during the year and pending payment at the close related to the maximum legal payment terms stated in Law 15/2010 is as follows:

	Payments made and pending payment on the closing date of the balance sheet			
	2012		**2011**	
	Thousand euros	**%**	**Thousand euros**	**%**
Payments in the year within the maximum legal limit	256,810	100%	151,296	100
Rest	-	-	-	-
Total payments in the year	256,810	100%	151,296	100
Average excess payment time (Days)	-	-	-	-
Balance pending payment at year end that exceed the legal time limit	-	-	-	-

70. Business combinations and the acquisition of participation in Dependent, Multigroup and Associated Entities

a) Information on acquisitions of capital of Dependent, Multigroup and Associated Entities

In December 2011, the Group acquired 100% of the share capital of Lagun-Aro Vida, S.A., in which it already had a 76% holding. The balance of 24% of the share capital, owned by minority interests prior to the acquisition date, amounted to €8,704k, and the Group paid €15,000k for the purchase of this percentage of the share capital. As a result of this operation the Group booked an amount of (€6,296)k in the consolidated net equity.

b) Business combinations

Until 20 December de 2011, the Group held 36.05% of the share capital of Seguros Lagun Aro, S.A. directly and 4.94% indirectly. On that date, the Group acquired 59,01% of the share capital of Seguros Lagun Aro, S.A. for € 52,862k thus obtaining control of Seguros Lagun Aro, S.A., a company operating as a risk insurer in the principal non-life insurance sectors, with coverage set legally for each sector. As a consequence of this operation, an amount of €20,035k corresponding to the carrying amount of the shares previously held in multigroup entities valued applying the participation method was removed from assets.

Additionally as a result of this acquisition, the Group expects to continue advancing in the process of collaboration in commercial activities, in a growing interrelated bank- insurer market. To this end, it seeks to begin a process of convergence and collaboration between the sales forces, as well as in the structures and marketing policies, to find a management model and a differentiated value proposal to the same client. It also expects to improve efficiency and efficacy along with important commercial synergies that would produce greater success rates of the offers and savings in communications costs. The goodwill of €33,425k derived from the acquisition is attributable to the client base acquired and the economies of scale that will presumably be generated by combining the operations of the Group with those of Seguros Lagun Aro, S.A.

The following table summarises the consideration paid by the Group and the fair values of the assets acquired and the liabilities assumed by the Group on the acquisition date:

Consideration on 20 December 2011	Thousand euros
Cash	52,862
Net equity instruments	-
Contingent consideration	-
Total consideration transferred	**52,862**
Asset through indemnity	-
Fair value of the net equity that the Group held before the business combination	36,719
Total consideration	**89,581**

The fair value of the non-dominant holding in the Group was estimated applying the price paid for the acquisition of the participation of the 58.12% in Seguros Lagun Aro, S.A., calculated based upon valuations prepared by independent third party experts.

(Expressed in €' 000)

Amounts recognised as identifiable assets acquired and liabilities assumed	**Thousand euros**
Other assets at fair value with changes through P&L	2,492
Available for sale financial assets (Note 25)	109,399
Credit investments	27,858
Held to maturity investments (Note 27)	7,999
Shareholdings (Note 30)	1,598
Assets held for reinsurance	27,184
Property, plant and equipment (Note 32)	34,374
Intangible assets	1,415
Tax assets	1,660
Rest of assets	18,798
Financial liabilities at amortised cost	(18,394)
Insurance contract liabilities	(155,239)
Provisions (Note 38)	(1,356)
Tax liabilities	(6,254)
Rest of liabilities	(3,251)
Results generated from 01.01.2011 to 20.12.2011	7,873
Total net identifiable assets	**56,156**
Non-dominant participations	**-**
Goodwill (Note 33)	**33,425**
Total	**89,581**

The expenses related to the acquisition were charged under the heading "Other general administration expenses" in the consolidated income statement for 2011.

There is no contingent consideration agreement that obliges the Group to pay any amounts in the future.

The fair value of the intangible assets (including goodwill) acquired is not subject to any provisional estimate.

No contingent liabilities were recognised by the Group arising from the integration of Seguros Lagun Aro, S.A. nor, therefore, assets for contingent indemnities in this area.

The Group recognised a gain of €16,248 k as a result of registering at fair value the 40.99% participation in Lagun Aro, S.A., held before that business combination. This gain was booked under the heading "Gains/(losses) on the disposal of assets not classified as non-current available for sale" in the consolidated income statement for the year 2011(Note 62).

Seguros Lagun Aro, S.A. has not contributed any profit or loss to the consolidated income statement corresponding to 2011, derived from its business activities once the business combination was completed.

If Seguros Lagun Aro, S.A. had been consolidated from 1 January 2011, the consolidated income statement for 2011 would show income of €110,187k and a profit of €7,873k.

CAJA LABORAL EUSKADIKO KUTXA

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2012 (€'000)

			2012					
			% Holding		Carrying amount		Investee earnings data (*)	
Company	Domicile	Activity	Direct	Indirect	Assets	Equity	Revenue	Net profit (loss)
Subsidiaries:								
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	24,472	37,231	58,137	580
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	214,064	48,607	99,116	23,388
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón (Gipuzkoa)	Investment fund manager	100%	-	11,328	7,441	10,771	741
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón (Gipuzkoa)	Pension fund manager	100%	-	2,782	2,189	2,524	46
Clarim Alava, S.L.	Vitoria	Real estate development	100%	-	74,582	1,730	8,333	147
Clarim Navarra, S.L.	Pamplona	Real estate development	100%	-	165,595	20,581	880	(1,474)
Clarim Valladolid, S.L.	Valladolid	Real estate development	100%	-	75,931	(27,461)	12,745	(6,936)
Clarim Bizkaia, S.L.	Bilbao	Real estate development	100%	-	88,003	32,985	9,875	(2,637)
Clarim Guipuzcoa, S.L.	Mondragón (Gipuzkoa)	Real estate development	100%	-	35,539	(527)	1,115	(369)
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón (Gipuzkoa)	Holding company	100%	-	80,561	60,557	8,827	8,813
Caja Laboral Banca Seguros, S.L.U.	Mondragón (Gipuzkoa)	Bancassurance operator	100%	-	2,527	1,292	4,506	1,282
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón (Gipuzkoa)	Real estate asset management	100%	-	996	991	-	(5)
Crediges, S.G.I.I.C, S.A.U.	Bilbao	Fund management	100%	-	2,991	2,613	1,915	157
Garkanba, S.L.	Bilbao	Real estate development	100%	-	97,714	(505	11,827	(4,185)
Piensos del Norte, S.A.	Mungia (Bizkaia)	Feedstock producer	100%	-	2,609	1,079	7,778	2
Promega Nervión, S.L.	Erandio (Bizkaia)	Real estate development	-	50.68%	40,379	6,179	139	137
Multigroup entities								
Copesa Montecerrao, S.L.	Barcelona	Real estate development	1%	25%	5,891	(1,448)	3,454	(2,077)
Copesa Valdecilla, S.L.	Barcelona	Real estate development	26.96%	24.02%	5	(6,545)	-	(380)
Guimel Aragón, S.L.	Madrid	Real estate development	-	50%	5,843	(7,111)	-	15
Capitol Promociones XXI, S.L.	Valladolid	Real estate development	25%	25%	6,116	(1,448)	1,184	(55)
Capitol León, S.L.	Valladolid	Real estate development	25%	25%	3,979	(4,387)	838	(213)
Promociones Royal Almazarro, S.L.	Zaragoza	Real estate development	25%	25%	2,527	(6,938)	-	(16)
Copesa Ciempozuelos, S.L.	Barcelona	Real estate development	-	25%	428	429	-	(3,538)
Promociones Flores Alfiden, S.L.	Navarra	Real estate development	25%	25%	11,223	(5,048)	-	(974)
Capitol los Valles, S.L.	Salamanca	Real estate development	20%	25%	NA	NA	NA	NA
Nuevos Desarrollos Residenciales M3 Torrelavega, S.L.	Cantabria	Real estate development	25%	25%	4,945	(2,705)	-	(4)
Eco Moncayo Azul, S.L.	Barcelona	Real estate development	25%	25%	6,340	(6,572)	-	(10)
Promociones Royal La Sagrada, S.L.	Zaragoza	Real estate development	25%	25%	1,406	(3,925)	-	(11)
Fuster Yequeda, S.L.	Huesca	Real estate development	25%	25%	2,193	(2,311)	-	(3)
Nuevas Promociones Sector 53, S.L.	Valladolid	Real estate development	25%	25%	3,575	(3,456)	-	(11)
Nuevas Promociones La Galera, S.L.	Valladolid	Real estate development	25%	25%	7,336	(5,542)	-	(10)
Urbialde Deba, S.L.	Beasain (Gipuzkoa)	Real estate development	-	25%	8,825	3,481	-	(11)
Residencial Almudevar, S.L.	Huesca	Real estate development	25%	25%	5,927	(3,562)	119	(4)
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	Madrid	Real estate development	0.49%	25%	8	(596)	-	(1)
Guimel Burgo, S.L.	Madrid	Real estate development	-	50%	4,427	(9,435)	-	(13)
Nuevos Desarrollos Residenciales La Albericia, S.L.	Santander	Real estate development	25%	25%	10,073	(6,562)	-	(11)
Promociones Iturmendi 2010, S.L.	Vitoria	Real estate development	25%	25%	10,847	1,235	-	52
Vial La Florida, S.L.	Oviedo	Real estate development	0.51%	24.49%	2,954	(526)	-	(235)
Fomenclar, S.L.	Mondragón (Gipuzkoa)	Holding company	50%	-	23,963	18,439	-	(732)
Promociones Maralema, S.L.	Zaragoza	Real estate development	25%	25%	4,132	(1,573)	464	56
Astillero el Navío	Bilbao	Real estate development	25%	25%	17,880	(13,889)	306	(54)
Residencial 12 Amigos	Bilbao	Real estate development	-	30%	33,187	854	-	(2,268)
IK-LKS Corporate, S.L.	Bilbao	Financial advisory	50%	-	43	33	31	14

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2012 (€'000)

Company	Registered office	Business activity	Ownership interest, %		Carrying amount		Investee earnings data (*)	
			Direct	Indirect	Assets	Equity	Revenue	Net profit (loss)
Associates								
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	23.57%	-	4,039	1,824	3,287	294

(a) At 31 December 2012 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to €8,565 k.

(*) The above figures for equity relate to the standardised financial statements of the investee entities at 31 December 2012. In certain instances where they relate to prior closings, in no event more than three months previously, the Parent Entity considers that they do not differ significantly from the forecast definitive financial statements at 31 December 2012.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2011
(€'000)

			2011					
			% Holding		Investee data (*)			
Company	Domicile	Activity	Direct	Indirect	Assets	Equity	Revenues for services/sales	Net income
Subsidiaries:								
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	479,798	33,631	80,657	3,734
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	226,013	40,196	99,378	7,873
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón (Gipuzkoa)	Investment fund manager	100%	-	10,064	7,913	8,811	524
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón (Gipuzkoa)	Pension fund manager	100%	-	2,740	2,144	2,598	78
Clarim Alava, S.L.	Vitoria	Real estate development	100%	-	12,156	(377)	-	(277)
Clarim Navarra, S.L.	Pamplona	Real estate development	100%	-	60,512	(21,506)	-	(17,336)
Clarim Valladolid, S.L.	Valladolid	Real estate development	100%	-	60,394	(23,247)	-	(22,547)
Clarim Bizkaia, S.L.	Bilbao	Real estate development	100%	-	80,336	(32,599)	-	(21,385)
Clarim Guipuzcoa, S.L.	Mondragón (Gipuzkoa)	Real estate development	100%	-	15,292	(338)	-	(341)
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón (Gipuzkoa)	Holding company	100%	-	74,225	74,197	-	-
Multigroup entities								
Copesa Montecerrao, S.L.	Barcelona	Real estate development	1%	25%	10,635	589	2,503	(770)
Copesa Valdecilla, S.L.	Barcelona	Real estate development	2.45%	24.02%	7,752	(6,165)	-	(163)
Guimel Aragón, S.L.	Madrid	Real estate development	0,5%	25%	5,836	(7,126)	-	(2,116)
Capitol Promociones XXI, S.L.	Valladolid	Real estate development	25%	25%	7,359	(1,355)	6,406	2,779
Capitol León, S.L.	Valladolid	Real estate development	25%	25%	2,821	(6,026)	237	(133)
Promociones Royal Almazarro, S.L.	Zaragoza	Real estate development	25%	25%	2,526	(6,922)	-	(585)
Copesa Ciempozuelos, S.L.	Barcelona	Real estate development	-	25%	431	433	-	(24)
Promociones Flores Alfiden, S.L.	Navarra	Real estate development	25%	25%	11,222	(4,074)	-	(6,938)
Capitol los Valles, S.L.	Salamanca	Real estate development	20%	25%	17,958	(21,716)	-	(467)
Nuevos Desarrollos Residenciales M3 Torrelavega, S.L.	Cantabria	Real estate development	25%	25%	4,951	(2,550)	-	973
Eco Moncayo Azul, S.L.	Barcelona	Real estate development	25%	25%	6,401	(6,561)	-	(1,232)
Promociones Royal La Sagrada, S.L.	Zaragoza	Real estate development	25%	25%	1,409	(3,913)	-	(363)
Fuster Yequeda, S.L.	Huesca	Real estate development	25%	25%	2,189	(2,308)	-	(46)
Nuevas Promociones Sector 53, S.L.	Valladolid	Real estate development	25%	25%	3,586	(3,445)	-	(2,059)
Nuevas Promociones La Galera, S.L.	Valladolid	Real estate development	25%	25%	7,375	(5,532)	-	(1,413)
Urbialde Deba, S.L.	Beasain (Gipuzkoa)	Real estate development	-	25%	8,834	3,492	-	(46)
Residencial Almudevar, S.L.	Huesca	Real estate development	25%	25%	5,906	(3,558)	-	(8)
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	Madrid	Real estate development	0.49%	25%	8	(596)	-	(2)
Guimel Burgo, S.L.	Madrid	Real estate development	0,5%	25%	4,395	(9,423)	-	(2,889)
Nuevos Desarrollos Residenciales La Albericia, S.L.	Santander	Real estate development	25%	25%	10,066	(6,551)	-	(6,653)
Promociones Iturmendi 2010, S.L.	Vitoria	Real estate development	25%	25%	10,578	1,183	-	1,426
Vial La Florida, S.L.	Oviedo	Real estate development	0.51%	24.49%	4,979	1,289	-	(571)
Fomenclar, S.L.	Mondragón (Gipuzkoa)	Holding Entity	50%	-	23,551	18,071	-	(1)
Promociones Maralema, S.L.	Zaragoza	Real estate development	25%	25%	4,518	(1,388)	506	444
Astillero el Navío	Bilbao	Real estate development	25%	25%	15,106	(13,334)	6,395	(7,334)
Residencial 12 Amigos	Bilbao	Real estate development	-	30%	21,516	3,122	-	(27)

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2011 (€'000)

			2011					
			% Holding		Investee data (*)			
Company	Domicile	Activity	Direct	Indirect	Assets	Equity	Revenues for services/sales	Net income
Associates								
Sharpe Asset Management Ireland Limited	Dublín	Investment fund manager	23.81%	-	6,447	4,791	3,233	564
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	23.57%	-	2,317	1,155	2,569	21

(a) At 31 December 2011 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to €8,564 k.

(*) The above figures for equity relate to the standardised financial statements of the investee entities at 31 December 2011. In certain instances where they relate to prior closings, in no event more than three months previously, the Parent Entity considers that they do not differ significantly from the forecast definitive financial statements at 31 December 2011.

This appendix forms an integrated part of Note 30 to the consolidated annual accounts and should be read together with it.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AT 31 DECEMBER 2012

Name	Registered office	ID code	Key	Date on which powers of attorney were granted	Mandate termination date	Geographic sphere of operations	Scope of the powers
Milagros Fernández Pérez	Plaza de Oriente nº 1 – Elvillar de Álava	72710683-R	ES4	01/07/1979	Renewable annually	Elvillar de Álava	For all agents: - Processing of current account transactions, savings and fixed term deposit books, signing the necessary documents. - Directing of loans and other risk transactions to the Entity. - Maintenance of correspondence with the Entity and contact with the public, organising their work in the hours and manner deemed optimal in keeping with the rules and instructions received from the Entity.
María Pilar González Mendieta	Plaza del Cuartel, s/n – Lanciego (Álava)	16563097-S	ES4	01/10/1997	Renewable annually	Lanciego (Álava)	
Gonzalo Marañón Oribe	Carretera nº 10 – Cripan (Álava)	72717038-P	ES4	01/07/2008	Renewable annually	Lanciego (Álava)	
Mª Guadalupe Pérez Fernández	Escuelas nº 1 – Samaniego (Álava)	16122078-K	ES4	30/01/1982	Renewable annually	Lanciego (Álava)	

CAJA LABORAL POPULAR COOP. DE CRÉDITO

IPAR KUTXA – LIST OF FIXED ASSETS TRANSFERRED (Euro)

	Properties			Furniture and fixtures			Other		
	Cost	Accumulated D&A	Carrying amount	Cost	Accumulated D&A	Carrying amount	Cost	Accumulated D&A	Carrying amount
<1990	16,651,163	(6,390,760)	10,260,403	545,438	(545,438)	-	1,822	(1,822)	-
1991	3,122,624	(2,145,865)	976,759	179,943	(179,943)	-	153,836	(153,836)	-
1992	267,882	(187,901)	79,981	1,069,873	(1,069,873)	-	13,210	(13,210)	-
1993	2,112,301	(919,370)	1,192,931	852,947	(852,947)	-	3,414	(3,414)	-
1994	628,520	(453,136)	175,384	706,031	(706,031)	-	10,619	(10,619)	-
1995	735,595	(463,341)	272,254	978,003	(978,003)	-	38,087	(38,087)	-
1996	762,477	(293,680)	468,797	1,090,988	(1,090,988)	-	41,485	(41,485)	-
1997	429,284	(203,693)	225,591	1,359,239	(1,359,239)	-	9,516	(9,516)	-
1998	322,099	(87,972)	234,127	262,012	(262,012)	-	15,763	(15,763)	-
1999	526,991	(180,747)	346,244	424,650	(424,650)	-	92,244	(92,244)	-
2000	1,909,408	(735,744)	1,173,664	901,441	(901,441)	-	128,449	(128,449)	-
2001	2,625,099	(1,012,280)	1,612,819	1,895,187	(1,895,187)	-	600,935	(600,935)	-
2002	2,423,165	(840,706)	1,582,459	4,128,102	(4,128,102)	-	1,171,581	(1,171,581)	-
2003	658,057	(205,829)	452,228	2,518,287	(2,518,287)	-	1,525,380	(1,525,380)	-
2004	41,600	(7,156)	34,444	1,608,390	(1,608,390)	-	261,239	(261,239)	-
2005	1,323,564	(168,953)	1,154,611	1,436,421	(1,319,173)	117,248	1,080,590	(1,080,590)	-
2006	179,735	(32,969)	146,766	2,002,571	(1,756,491)	246,080	895,367	(895,367)	-
2007	1,550,085	(166,361)	1,383,724	1,897,256	(1,501,621)	395,635	298,075	(298,075)	-
2008	2,958,802	(260,028)	2,698,774	2,992,050	(1,948,733)	1,043,318	1,514,470	(1,514,470)	-
2009	1,225,933	(122,178)	1,103,755	4,230,763	(2,133,911)	2,096,852	844,795	(719,832)	124,963
2010	646,521	(29,776)	616,745	2,788,815	(883,952)	1,904,863	1,085,543	(619,183)	466,360
2011	454,490	(11,756)	442,734	2,424,332	(381,398)	2,042,935	1,566,081	(397,017)	1,169,064
2012	6,521,852	(22,915)	6,498,937	561,877	(41,579)	520,298	192,375	(28,386)	163,989
			33,134,131			8,367,229			1,924,376

CAJA LABORAL
EUSKADIKO KUTXA

CAJA LABORAL POPULAR COOP. DE CRÉDITO

DIRECTORS' CONSOLIDATED REPORT FOR 2012

2012 was a year of contraction in the eurozone as a whole, punctuated by fears of the imminent break up of the single currency. Uncertainty in the European markets was exacerbated and drawn out by questions regarding the best way to manage the crisis, sparking widespread debate, particularly in the more troubled nations, of the reasonableness of the austerity efforts demanded in light of their recessionary consequences.

Pressure on the peripheral nations and their sovereign debt reached a height in July right before Mario Draghi's now famous speech, which had the effect of deflating country risk premiums and enabling Spanish financial institutions to return, gradually, to the international wholesale funding markets. The European Union's ambitions and its single currency were substantially reinforced by the perception that there is the will and firepower to reinforce political, economic and fiscal union.

Against this backdrop, the Spanish financial system went through unprecedented concentration, restructuring and recapitalisation, guided by the decrees issued by the minister for finance stipulating higher provisioning requirements in respect of construction and property development assets.

In 2012, Caja Laboral and Ipar Kutxa contemplated a merger designed to reinforce their competitive positioning via the creation of a New Entity capable of tackling the challenges looming in the sector:

- Contracting business volumes, particularly lending activity, as a result of the economic crisis and the ongoing deleveraging of the Spanish economy, in parallel with a sharp increase in non-performance and the related solvency implications.

- Margin contraction in the traditional banking business, exacerbated by more expensive deposits (due to intense competition to attract retail liabilities as a result of the challenges in raising money in the wholesale markets), coupled with higher risk premiums in the wholesale market.

- Intense pressure to contain operating expenses and overhead, that will necessarily imply the scaling back of productive capacity across the system and the search for new productive models.

- Acceleration of extraordinary loan loss and asset provision schedules (as a result of recently passed legislation) and foreseeable regulatory changes in this arena, coupled with the impact of Basel III on capital and liquidity management.

This new corporate endeavour was approved at both entities' General Assemblies on 30 June 2012. The New Credit Cooperative was incorporated on 2 November, all the assets and liabilities of both entities having been transferred to it. The goals of the New Entity include:

- To position itself with greater scale and, by extension, a more sustainable business model, in the Spanish banking system, the subject of ongoing bi-polarisation (banks-credit cooperatives) in the wake of the restructuring of the savings banks (*cajas de ahorros*).

- To take advantage of the territorial and customer uprooting resulting from the aforementioned restructuring of the savings bank segment.

- To remain one of the top-ranked cooperative banks in Spain and cement its position as the number two financial institution in the Basque region.

- To pursue business development based on reasonable financial and strategic criteria, leveraging the scope for generating efficiencies and reducing surplus capacity.

- To maintain high core capital levels in order to enhance how the market, its customers and the supervisor perceive its risk levels.

- To generate economies of scale and scale back productive capacity in order to deliver a significant improvement in cost-to-income.

The New Credit Cooperative intends to remain unwaveringly committed to the cooperative model, local ties and roots and firmly devoted to the economic, social and institutional development that guided the former entities in their respective natural markets, all with the overriding objective of gaining market share in their home markets and leadership in the credit cooperative segment in the Basque and Navarra regions where cooperative banking is entrenched in and much-appreciated by society. It will similarly maintain its strategic focus on the industrial and agricultural sectors.

The New Entity starts life underpinned by the following business metrics and figures (as of 31 December 2012).

The assets of Caja Laboral and its Group total €24,973.4 million.

Customer deposits amount to €18,375.2 million, while loans advanced stand at €16,469.7 million.

The non-performing loan ratio, calculated as the percentage of assets classified as doubtful over the balance of customer loans as per the consolidated balance sheet, without factoring in valuation measurements, stands at 6.95%, a figure that is considerably below the sector average of 10.4% after the transfer of doubtful assets to the SAREB, the asset management company more commonly known as Spain's bad bank.

Available-for-sale financial assets amount to €4,017.9 million, representing 16% of total year-end 2012 assets. The balance of measurement adjustments recognised in consolidated equity shows a net gain of €10.8 million.

The New Entity's productivity and liquidity indicators stand out with respect to the sector averages on both absolute and relative terms. The cost-to-income ratio, expressed as the ratio of consolidated administrative expenses to the consolidated gross margin, stood at 42.9% at year-end, while the structural liquidity gap (deposits-to-loans) was 86.89%.

DIRECTORS' CONSOLIDATED REPORT FOR 2012

As for solvency, measured in terms of core or *principal* capital, a variable that measures the relationship between tier one capital and risk-weighted assets, the New Entity presents a ratio of 10.96%, indicating a solid equity position for facing the future and a ratio substantially in excess of the minimum threshold of 9% required as from 1 January 2013.

The earnings highlights of the New Entity and its group since embarking on its new endeavour, namely for November and December 2012, include the following:

In a low rate environment marked by intense price pressure due to the so-called 'deposit war', the Group managed to focus strategically on its core business spreads to drive net interest income of €59.9 million in its first two months of operations.

Net fee and trading income also performed acceptably, underpinning a gross margin in the first two months of operations of €88.5 million.

Control over staff costs and other administrative expenses facilitated operating income of €35.6 million and income before tax of €11.8 million.

In the wake of the insurance business restructuring undertaken in 2011 with the acquisition by Caja Laboral of 100% of the shares of insurers Seguros Lagun Aro, S.A. and Seguros Lagun Aro Vida, S.A., Caja Laboral Banca Seguros, S.L.U. was incorporated in 2012 to hold all of the insurance operations performed in the banking channel, including the insurance business deriving from the strategic alliance reached previously by IparKutxa with Cáser.

The new bancassurance model is unparalleled in the national market and marks an innovative and strategic bid to build a leadership position in the insurance segment.

2013 will be shaped primarily by the difficulty in generating net interest income in an environment marked by unusually low rates. The sector is bound to continue to deleverage, consolidate and scale back installed capacity and points of sale. Corporate creditworthiness is also likely to deteriorate, as will be evident in still-rising non-performing loan ratios.

Despite the adverse backdrop, in 2013 Caja Laboral expects to strengthen its performance, posting growth in its core liquidity, profitability and solvency indicators.

APPENDIX II

OTHER ENTITIES ISSUING SHARES ADMITTED TO NEGOTIATION IN OFFICIAL MARKETS THAT ARE NOT SAVINGS BANKS

DATA IDENTIFYING THE ISSUER FINANCIAL YEAR 2012

C.I.F. (Tax Identification Code) F75076935

Corporate Name:

CAJA LABORAL POPULAR COOP. DE CRÉDITO

Headquarters:

PASEO JOSÉ MARÍA ARIZMENDIARRIETA S/N
MONDRAGÓN
GIPUZKOA
20500
SPAIN

MODEL FOR ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED CORPORATIONS

For better understanding of the model and its subsequent writing, it is necessary to read the instructions on how to fill it in which appear at the end of this report.

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 registered capital
LAGUN-ARO, EPSV	**14.105**

A.2. Indicate, where appropriate, any family, commercial, contractual or company relations that exist between the significant shareholders or participants, as far as they are known by the entity, unless they are barely relevant or derive from ordinary commercial directions or traffic:

Related names or corporate names	Type of relationship	Brief description
MONDRAGÓN CORPORACIÓN COOPERATIVA	Company	THE COOPERATIVES AND THEIR MERCANTILE COMPANIES THAT ARE MEMBERS OF CAJA LABORAL POPULAR IN TURN FORM PART, AS A GENERAL RULE, OF MONDRAGÓN CORPORACIÓN COOPERATIVA. THIS CORPORATION, OF WHICH CAJA LABORAL POPULAR IS A MEMBER, IS A GROUP OF FREELY ASSOCIATED COOPERATIVES THAT SHARE COOPERATIVE VALUES AND THAT AIM TO ACHIEVE COMPETITIVE ADVANTAGES DERIVED FROM WORKING TOGETHER IN THE BUSINESS FIELD.

A.3. Indicate, when appropriate, any commercial, contractual or company relations that exist between the significant shareholders or participants and the entity, unless they are barely relevant or derive from ordinary commercial directions or traffic:

Related names or corporate names	Type of relationship	Brief description
MONDRAGON INVERSIONES SPE, S.COOP.	Company	CAJA LABORAL POPULAR CONTRIBUTES TO MONDRAGON INVERSIONES SPE, S.COOP. AND FUNDACIÓN MONDRAGON (ENTITIES BELONGING TO OR JOINTLY FORMED BY THE ASSOCIATED COOPERATIVES IN

		CORPORACIÓN MONDRAGON) AN ANNUAL SUM EQUIVALENT TO 20% OF SURPLUS BEFORE TAX FROM THE PREVIOUS FINANCIAL YEAR MINUS INTEREST ON THE CAPITAL AND SUBSIDIES CORRESPONDING TO THE CONTRIBUTION TO MCC'S INTERCOOPERATIVE CENTRAL (FCI) OF CORPORACIÓN MONDRAGON THESE CONTRIBUTIONS ARE MADE ACCORDING TO THE FOLLOWING CRITERIA: A) UNDER THE SUBSIDY HEADING, AN AMOUNT IS CONTRIBUTED ANNUALLY EQUIVALENT TO 14% OF THEIR NET SURPLUS THAT IS DEDUCTED FROM THE INTER-COOPERATIVE SOCIAL FUND. B) THE REMAINING QUANTITY UP TO 20% OF THE BASIS FOR CALCULATING THE CONTRIBUTION TO THE FCI, APPEARING AS LOANS OR CONTRIBUTIONS TO CAPITAL OF ENTITIES BELONGING TO THE CORPORATION, IN THE EVENT OF BEING SUBJECT TO PROVISION FOR INSOLVENCY FROM CAJA LABORAL POPULAR, THIS AMOUNT IS REDUCED BY THE SUBSIDY TO BE MADE IN THE FINANCIAL YEAR IN WHICH THE NEED AROSE FOR THE AFOREMENTIONED PROVISION.

B STRUCTURE OF THE ENTITY'S ADMINISTRATION

B.1. Board or Administrative Body

B.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	15
Minimum number of board/body members	12

B.1.2. Complete the following table on the board/administrative body members and their different statuses:

BOARD / ADMINISTRATIVE BODY MEMBERS

Name or company name of the board/administrative body member	Representative	Date last appointed	Status
TXOMIN GARCIA HERNANDEZ		30-06-2012	OTHER EXTERNAL BOARD MEMBER

MARÍA BELÉN CORTABARRIA ACHA		30-06-2012	OTHER EXTERNAL BOARD MEMBER
IÑAKI JOSU GOÑI GABILONDO		30-06-2012	OTHER EXTERNAL BOARD MEMBER
CARMEN AMAYA CECIAGA EZCURRA		30-06-2012	OTHER EXTERNAL BOARD MEMBER
FCO. JAVIER GORROÑOGOITIA ITURBE		30-06-2012	OTHER EXTERNAL BOARD MEMBER
JAVIER OLEAGA MENDIARACH		30-06-2012	OTHER EXTERNAL BOARD MEMBER
MARIA CARMEN URRUTIA URIBECHEBARRIA		30-06-2012	OTHER EXTERNAL BOARD MEMBER
JOSE MARIA BALZATEGUI JULDAIN		30-06-2012	OTHER EXTERNAL BOARD MEMBER
ANA MARIA BERISTAIN EGUIGUREN		30-06-2012	OTHER EXTERNAL BOARD MEMBER
JOSE LUIS GARCIA GARCIA		30-06-2012	OTHER EXTERNAL BOARD MEMBER
JOSE JAVIER SAENZ DE BURUAGA GABILONDO		30-06-2012	OTHER EXTERNAL BOARD MEMBER
LUIS MARIA UGARTE AZPIRI		30-06-2012	OTHER EXTERNAL BOARD MEMBER
ROBERTO RUIZ DE INFANTE AGUIRRE		30-06-2012	OTHER EXTERNAL BOARD MEMBER
JOSE LINAZA JAUREGUI		30-06-2012	OTHER EXTERNAL BOARD MEMBER
PABLO JESUS LARRABIDE BILBAO		30-06-2012	OTHER EXTERNAL BOARD MEMBER

B.1.3. Identify, when appropriate, the board/administrative body members that take on administrative or management roles in other entities within the entity's group:

Name or company name of the board/administrative body member	Corporate name of the group's entity	Position
TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS
TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO VIDA, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS

B.1.4. Complete the following table regarding the aggregate salary of the board/administrative body members paid over the financial year:

Salary item	Individual (in thousands of euros)	Group (in thousands of euros)
Fixed salary	249	
Variable salary	16	
Board	12	
Other payments		
Total:	277	

B.1.5. Identify the top management members that are in turn members of the board or administrative body and indicate the total payment made to them during the financial year:

Name or corporate name	Position
JULIO GALLASTEGUI ZUBIZARRETA	MANAGING DIRECTOR
JOSU ARRAIZA MARTÍNEZ DE LAGRAN	BUSINESS AREA DIRECTOR
XABIER EGUIBAR GAINZA	BUSINESS DEVELOPMENT AREA DIRECTOR
PEDRO MARIA GUEREÑO MARZOL	PRIVATE CUSTOMER COMMERCIAL AREA DIRECTOR
NURIA AGUIRRE UNZUETA	SOCIAL MANAGEMENT AREA DIRECTOR
CARLOS UGARTE MAIZTEGUI	SYSTEMS AND OPERATIONS AREA DIRECTOR
JOSÉ ANTONIO UNANUE ETXEBERRIA	CONTROL AREA DIRECTOR
ROMAN AGUIRRE BEITIA	INVESTMENT AREA DIRECTOR
ALFREDO ZABALETA BARREDO	RISK AREA DIRECTOR
CARLOS OSES IRULEGUI	DEPUTY MANAGING DIRECTOR
IÑAKI PEÑA GOMEZ	DIRECTOR OF CLIENT RELATIONS
OSCAR EGUSKIZA SIERRASESUMAGA	DEPUTY RISK AREA DIRECTOR

Total top management payments (in 000 Euros)	1058

I

B.1.6. Indicate whether the board's bylaws or regulations establish a limited mandate for the members of the board/administrative body:

YES ☐ **NO** ☒

Maximum number of mandate years	0

B.1.7. Indicate whether the individual and consolidated annual accounts that are presented for approval 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:

Name or corporate name	Position

B.1.8. 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 provisos in the audit report

B.1.9. Is the secretary of the board or administrative body also a member of the board?

YES X **NO** ☐

B.1.10. Indicate, if they exist, the mechanisms established to maintain the independence of the auditor, the financial analysts, the investment banks and the rating agencies.

B.2. Committees of the Board or Administrative Body.

B.2.1. List the administrative bodies:

	No. of members	Duties
AUDIT COMMITTEE	4	GIVEN IN POINT B.2.3

B.2.2. Give details of all committees of the board or administrative body and its members:

EXECUTIVE OR DELEGATE COMMITTEE

Name or corporate name	Position

AUDIT COMMITTEE

Name or corporate name	Position
MARIA CARMEN URRUTIA URIBECHEBARRIA	CHAIR
MARIA BELÉN CORTABARRIA ACHA	MEMBER
IÑAKI JOSU GOÑI GABILONDO	MEMBER
JOSE LINAZA JAUREGUI	MEMBER

APPOINTMENTS AND REMUNERATION COMMITTEE

Name or corporate name	Position
ANA MARIA BERISTAIN EGUIGUREN	MEMBER
JOSE LUIS GARCIA GARCIA	CHAIR
JOSE JAVIER SAENZ DE BURUAGA	SECRETARY

STRATEGY AND INVESTMENTS COMMITTEE

Name or corporate name	Position

B.2.3 Describe the organisation and operation rules, plus the responsibilities attributed to each of the board's committees or members of the administrative body. Where appropriate, the faculties of the Managing Director should be described.

THE AUDIT COMMITTEE HAS THE SPECIFIC FUNCTIONS APPEARING IN THE ARTICLES OF ASSOCIATION (ART. 36. NINE), MEANING:

A) INFORM THE GENERAL MEETING ABOUT THE MATTERS RAISED AT IT BY SHAREHOLDERS THAT ARE WITHIN THEIR COMPETENCE.

B) PROPOSE TO THE GOVERNING BOARD, FOR SUBMISSION TO THE GENERAL MEETING, THE APPOINTMENT, EXTENSION OR RESIGNATION OF THE EXTERNAL ACCOUNT AUDITORS.

C) SUPERVISE THE INTERNAL AUDIT SERVICES.

D) BE AWARE OF THE FINANCIAL INFORMATION PROCESS AND THE COMPANY'S INTERNAL CONTROL SYSTEMS.

E) 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.

THE COMPANY ARTICLES OF ASSOCIATION 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 AGREEMENTS ARE ADOPTED BY SIMPLE MAJORITY.

B.2.4. Indicate the number of meetings that the audit committee has held during the financial year:

Number of meetings	**4**

B.2.5. If there is an appointment committee, indicate whether all of its members are board members or members of the external administrative body.

YES ☒ **NO** ☐

C ASSOCIATED OPERATIONS

C.1. Give details of the relevant operations that represent transferring resources or obligations between the entity or entities in your group, and the entity's most significant shareholders or participants:

Name or corporate name of the most significant shareholder or participant	Name or corporate name of the entity or entity from your group	Nature of the relationship	Type of operation	Amount (000 Euros)

C.2. Give details of the relevant operations that represent transferring resources or obligations between the entity or entities in your group, and the entity's administrators or members of the administrative body or directors:

Name or corporate name of the administrators or members of the administrative body or directors	Name or corporate name of the entity or entity from your group	Nature of the relationship	Type of relationship	Amount (000 Euros)

C.3. Give details of relevant operations carried out with other entities belonging to the same group, whenever they are not eliminated in the process of drawing up consolidated financial statements and they do not form part of the entity's usual traffic in terms of their subject and conditions:

Corporate name of your group's entity	Brief description of the operation	Amount (000 Euros)

C.4. Identify, when appropriate, the conflict of interest situation for the entity's board/administrative body members, as given in article 127.3 of the Corporates Act (LSA).

C.5. 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 AGREEMENTS MADE BY THE GENERAL MEETING AND THE GOVERNING BOARD THAT HARM THE INTERESTS OF CAJA LABORAL POPULAR, TO THE BENEFIT OF ONE OR MORE SHAREHOLDERS OR THIRD PARTIES, THE FOLLOWING SPECIFIC REGULATIONS CAN BE APPLIED, REFERRING TO POSSIBLE CONFLICTS OF INTERESTS:

A) THE DUTY TO ABSTAIN FROM VOTING AT THE GENERAL MEETING BY AFFECTED SHAREHOLDERS WHEN THE GENERAL MEETING'S AUTHORISATION IS REQUIRED TO BE BOUND TO ANY MEMBER OF THE GOVERNING BOARD AND INSPECTORS OR TO THE DIRECTOR OR ONE OF THEIR FAMILY MEMBERS RELATED WITHIN THE SECOND DEGREE OF CONSANGUINITY OR BY MARRIAGE, EXCEPT WHEN THIS CONCERNS RELATIONSHIPS SPECIFIC TO SHAREHOLDER STATUS.

B) THE NEED TO COVER THE REQUIREMENTS THAT ARE THEN GIVEN FOR THE GOVERNING BOARD'S AGREEMENTS ON COOPERATIVE OPERATIONS OR SERVICES IN FAVOUR OF THE MEMBERS OF THE GOVERNING BOARD AND THE OTHER STATUTORY CORPORATE BODIES, FROM THE GENERAL MANAGEMENT OR THE FAMILY MEMBERS OF ANY OF THEM UP TO THE SECOND DEGREE OF CONSANGUINITY OR BY MARRIAGE. THE REQUIREMENTS ARE AS FOLLOWS:

- THE AGREEMENT MUST BE ADOPTED BY SECRET BALLOT, AFTER HAVING CLEARLY INCLUDED THE MATTER IN THE AGENDA WITH DUE CLARITY.

- THE AGREEMENT SHOULD BE ADOPTED BY A MAJORITY OF NO LESS THAN TWO THIRDS OF ALL THE BOARD MEMBERS. IF THE BENEFICIARY OF THE OPERATION OR SERVICE IS A BOARD MEMBER OR A MEMBER OF THEIR FAMILY, 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 AGREEMENT ADOPTED.

THESE SAME REQUIREMENT MUST BE COVERED WHEN IT IS A MATTER OF CONSTITUTING, SUSPENDING, MODIFYING, RENEWING OR CANCELLING CAJA LABORAL POPULAR'S OBLIGATIONS OR RIGHTS WITH ENTITIES IN WHICH THESE PEOPLE OR THEIR AFOREMENTIONED FAMILY MEMBERS ARE IN CHARGE, BOARD MEMBERS, ADMINISTRATORS, TOP MANAGEMENT, CONSULTANTS OR BASIC MEMBERS WITH A CAPITAL SHARE THAT IS EQUAL TO OR GREATER THAN 5%.

D RISK CONTROL SYSTEMS

D.1. General description of the company and/or its group's risk management policy, giving details and evaluating the risks covered by the system, together with justification of how well these systems match the profile of each type of risk.

CAJA LABORAL CONSIDERS RISK MANAGEMENT TO BE A FUNDAMENTAL ASPECT OF ITS ACTIVITY AND A DECISIVE COMPETITIVE ADVANTAGE FACTOR THAT HAS BECOME PARTICULARLY RELEVANT IN THE CURRENT CRISIS SITUATION. FROM AN ORGANISATIONAL POINT OF VIEW, THE ENTITY HAS A RISK AREA, DEPENDENT ON GENERAL MANAGEMENT, WHICH INCLUDES A DEPARTMENT THAT CENTRALISES THE RESPONSIBILITY OF ADMITTING CREDIT RISK (EXCLUDING THE TREASURY PART), A DEPARTMENT THAT CENTRALISES THE RESPONSIBILITY FOR MONITORING AND RECOVERING THESE SEGMENTS, AND A DEPARTMENT FOR OVERALL RISK MANAGEMENT THAT INCLUDES BUILDING AND MAINTENANCE OF INTERNAL CREDIT RISK MODELS AND THE LIQUIDITY, INTEREST RATE, MARKET AND OPERATIONAL RISK CONTROL UNITS. CONCENTRATING RISK MANAGEMENT RESPONSIBILITY INTO JUST ONE AREA GENERATES SYNERGIES AND OPERATIVE AGILITY IN TERMS OF TRANSMITTING POLICY DIRECTION FOR RISKS, AND GREATER KNOWLEDGE AND BETTER CONTROL OF ALL RISKS.

THE MAIN RISKS MANAGED AND CONTROLLED AT CAJA LABORAL ARE: CREDIT RISK, MARKET RISKS, OPERATIONAL RISK, INTEREST RATE RISK, LIQUIDITY RISK.

CREDIT RISK IS THE RISK OF LOSS THAT CAN OCCUR DUE TO NOT MEETING THE PAYMENTS DUE TO THE ENTITY. TO EVALUATE THE CREDIT RISK ASSOCIATED WITH THE DIFFERENT OPERATIONS, CAJA LABORAL HAS DEVELOPED INTERNAL RATING AND SCORING MODELS THAT CAN DIFFERENTIATE CLIENTS (RATING) OR OPERATIONS (SCORING) DEPENDING ON THEIR RISK PROFILE. IN THE INDIVIDUALS SEGMENT, RISK ADMISSION IS BASED ON SCORINGS (REACTIVE ADMISSION) AND RATINGS (PROACTIVE ADMISSION IN CONSUMER OPERATIONS). ON THE OTHER HAND, RATINGS ARE APPLIED IN THE BUSINESS AND FINANCIAL ENTITY SEGMENTS.

MARKET RISK IS THE RISK OF INCURRING LOSSES IN THE MARKET VALUE OF THE POSITIONS AS A CONSEQUENCE OF ADVERSE MOVEMENTS OF RISK FACTORS (INTEREST RATES, EXCHANGE RATES, SHARE PRICES AND COMMODITIES PRICES). TO EVALUATE MARKET RISK, CAJA LABORAL USES NOMINAL INDICATORS FOR STRATEGIC POSITIONS AND VALUE AT RISK (VAR) FOR TRADING POSITIONS.

OPERATIONAL RISK REFERS TO THE LOSSES THAT THE ENTITY COULD INCUR DUE TO INTERNAL PROCESSES, EMPLOYEES, INAPPROPRIATE SYSTEMS OR EXTERNAL FACTORS. CAJA LABORAL CONTROLS AND MANAGES THIS RISK BY A MANAGEMENT MODEL BASED ON A SYSTEM OF CONTINUOUS IMPROVEMENT OF PROCESSES AND THE CONTROL ENVIRONMENT, REDUCING RECURRING LOSSES AND PREVENTING POTENTIAL SEVERE LOSSES IN THE FUTURE. FURTHERMORE, THE ENTITY CALCULATES ITS REGULATORY CAPITAL IN ACCORDANCE WITH THE STANDARD METHOD.

INTEREST RATE RISK REFERS TO LOSSES THAT CAN OCCUR IN THE PROFIT AND LOSS ACCOUNT AND IN THE EQUITY VALUE OF THE ENTITY AS A RESULT OF AN ADVERSE MOVEMENT IN THE INTEREST RATES. TO EVALUATE THIS BALANCE RISK, THE ENTITY USES SIMULATION AS A BASIC TOOL, ESTIMATING THE LOSSES THAT MIGHT OCCUR IN THE MID TERM IN THE DIFFERENT INTEREST RATE SCENARIOS. IT ALSO ESTIMATES THE IMPACT THAT A VARIATION IN THE INTEREST RATES MIGHT HAVE ON THE ECONOMIC VALUE OF THE ENTITY.

LIQUIDITY RISK IS THE RISK OF NOT BEING ABLE TO COVER THE PAYMENTS AND WITHDRAWALS OF THE ENTITY'S FUNDS OR, WHEN APPROPRIATE, AT THE COST OF RESORTING TO OBTAINING LIQUID RESOURCES AT OVER THE MARKET PRICE. THIS ALSO REFERS TO THE CAPACITY TO GENERATE FINANCING NEEDS IN THE MID AND LONG TERM TO BE ABLE TO MEET THE DEMAND FOR INVESTMENT. THE ENTITY SETS ANNUAL TARGETS RELATED TO VOLUME OF LIQUID ASSETS AND VARIOUS LIQUIDITY RATIOS, CARRYING OUT MONTHLY MONITORING THAT INCLUDES THESE TARGETS.

D.2. Indicate the control systems set up to evaluate, mitigate or reduce the main risks for the company and its group.

THE GOVERNING BOARD, CAJA LABORAL'S TOP ADMINISTRATIVE BODY, IS ULTIMATELY RESPONSIBLE FOR MONITORING AND SUPERVISING THE RISKS INCURRED BY THE ENTITY. THE BOARD DELEGATES THE FUNCTION OF RISK CONTROL TO DIFFERENT COMMITTEES, WITHIN A GENERAL ACTION FRAMEWORK, WHICH IS SET FORTH BOTH BY THE REGULATIONS OF THE BANK OF SPAIN (*BANCO DE ESPAÑA*) AND BY THE LIMITS ESTABLISHED BY THE GOVERNING BOARD AND BY THE GUIDELINES SET BY THE NEW BASEL CAPITAL ACCORD.

THE GOVERNING BOARD IS INFORMED ABOUT THE MANAGEMENT AND CONTROL OF THE DIFFERENT RISKS THROUGH BOTH THE DIRECT PRESENCE OF ITS MEMBERS ON SOME COMMITTEES AND THE MONTHLY DOWNLOAD FROM THE GENERAL MANAGEMENT.

AT A GENERAL MANAGEMENT LEVEL, THE PROFIT AND LOSS COMMITTEE (COAP), A BODY MADE UP OF THE CHAIRMAN, MANAGING DIRECTOR, DEPUTY MANAGING DIRECTOR, FIVE AREA DIRECTORS AND FOUR DEPARTMENT DIRECTORS HAS BEEN SET UP AS THE BOARD TO WHICH ALL INFORMATION ON CONTROLLING ALL RISKS IS REPORTED, EXCEPT FOR OPERATIONAL RISK WHICH IS REPORTED TO THE OPERATIONAL RISK COMMITTEE (CORO).

THE RISK AREA AND SPECIFICALLY THE RISK CONTROL DEPARTMENT REPORTS MONTHLY TO THE COAP ALL THE INFORMATION RELATING TO THE DIFFERENT RISKS, AND ANY INFORMATION RELATING TO OPERATIONAL RISK TO THE CORO.

STARTING WITH THE CREDIT RISK, CAJA LABORAL DIFFERENTIATES BETWEEN RISKS DERIVED FROM THE TREASURY AND CAPITAL MARKET ACTIVITY AND THE RISKS DERIVED FROM THE TRADITIONAL INVESTMENT ACTIVITY WITH INDIVIDUALS AND COMPANIES.

IN RELATION TO THE LATTER, THE GOVERNING BOARD DELEGATES A LEVEL OF RISK ATTRIBUTION TO THE GENERAL MANAGEMENT. THERE ARE DIFFERENT FIXED LEVELS OF RISK ATTRIBUTION IN THE NETWORK AND IN THE CENTRAL DEPARTMENTS, DEPENDING ON FACTORS SUCH AS THE RISK LEVEL, THE RISK VOLUME, THE TYPE OF PRODUCT AND THE OPERATION PRICE.

TO EVALUATE THE CREDIT RISK ASSOCIATED WITH THE DIFFERENT OPERATIONS, CAJA LABORAL HAS DEVELOPED INTERNAL RATING AND SCORING MODELS THAT CAN DIFFERENTIATE CLIENTS (RATING) OR OPERATIONS (SCORING) DEPENDING ON THEIR RISK LEVEL.

HENCE FOR INDIVIDUALS, THE PROCESS OF REACTIVE RISK ADMISSION RELIES ON LINKED SCORINGS, COMPLEMENTED BY PRECONCESSION, BASED ON RATING MODELS, OF CONSUMER LOANS THAT ARE AUTOMATICALLY AVAILABLE FOR THE CLIENT IN THE DIFFERENT CHANNELS. FOR COMPANIES, HOWEVER, THE ADMISSION PROCESSES WORK WITH A BINOMIAL SCHEME BETWEEN ANALYST/ADMINISTRATOR, WITH A CUSTOMER/ANALYST CHARACTERISATION, MAKING USE OF THE ANALYSTS TO MAKE DECISIONS TO SUPPORT THE INTERNAL RATINGS. BOTH SCORINGS AND RATINGS ARE COMPLEMENTED IN ALL CASES WITH A SYSTEM OF ALERTS (WHICH COVERS ASPECTS RELATED TO CUSTOMER DEBT) AND RESPONSIBILITIES.

THE INTERNAL MODELS, WHICH ARE DRAFTED BY THE RISK CONTROL DEPARTMENT AND SUBJECT TO SYSTEMATIC REVIEW, ARE THEREFORE USED IN DECISION-MAKING PROCESSES AND ALSO TO BUILD AND DEVELOP INTEGRATED DATABASES THAT ALLOW CALCULATIONS TO BE RUN ON SEVERITIES, EXPECTED LOSSES, CAPITAL CONSUMPTION, ETC. WITHIN THE FRAMEWORK OF REQUIREMENTS FROM THE NEW BASEL CAPITAL ACCORD. ON THE OTHER HAND, BOTH THE SCORING AND RATING MODELS PERMIT THE ENTITY TO ESTIMATE THE EXPECTED LOSS AND THE PRICING OF THE DIFFERENT INDIVIDUAL AND BUSINESS OPERATIONS.

RISK MITIGATION AND REDUCTION TAKES PLACE IN SEVERAL WAYS:

- IN THE ADMISSION PROCESS, ALTHOUGH THE ADMISSION CRITERIA ARE BASED ON THE LENDERS' ABILITY TO PAY, WITH THE INTERNAL MODELS PLAYING AN ESSENTIAL PART IN ESTIMATING THIS, GUARANTEES CONSTITUTE THE SECOND METHOD OF RECOVERY. THE MAIN GUARANTEES ARE PROVIDED BY MORTGAGE GUARANTEES, WITH PARTICULAR EMPHASIS ON THE LTV RATIO OF THE OPERATIONS, AND BY GUARANTORS.

- IN THE MONITORING PROCESS, THE ENTITY HAS INTERNAL PRE-DEFAULT MODELS, WHICH MAKE IT POSSIBLE TO ANTICIPATE NON-PAYMENT SITUATIONS, SO THAT POSITIONS WITH A HIGH PROBABILITY OF NON-PAYMENT CAN BE PROACTIVELY MANAGED.

- IN RECOVERIES MANAGEMENT, A PROCEDURE HAS BEEN SET UP THAT INVOLVES DIFFERENT AGENTS INTERVENING TO RECOVER THE DEBT, DEPENDING ON THE TIME PHASE OF THE NON-PAYMENT OPERATION. WITHIN THIS CONTEXT, IT SHOULD BE POINTED OUT THAT BOTH INTERNAL (BRANCH, REMOTE BANKING, PRE-CONTENTIOUS AND CONTENTIOUS) AND EXTERNAL AGENTS INTERVENE IN RECOVERY MANAGEMENT.

THE COAP IS INFORMED ABOUT THE EVOLUTION OF THE RISK WITH COMPANIES AND INDIVIDUALS EVERY MONTH.

AS FAR AS CREDIT RISK IS CONCERNED WITH FINANCIAL ENTITIES AND LARGE CORPORATIONS IN THE FIELD OF TREASURY AND CAPITAL MARKET, THE CONTROL ROLE IS DELEGATED TO THE COAP, WHICH SETS LIMITS BY COUNTERPART AND COUNTRY. TO DO SO, IT RELIES ON INTERNAL MODELS FOR ALLOCATING LINES OF RISK, BASED ON EXTERNAL RATINGS, WHICH EVALUATE RISK AND CLASSIFY THE COUNTERPARTS ACCORDINGLY, SETTING THE LIMITS IN LINE WITH THIS CLASSIFICATION. THIS SYSTEM IS COMPLETED WITH A SYSTEM OF ALERTS THAT MAKES IT POSSIBLE TO CORRECT THE LIMITS WITH THE REQUIRED SPEED.

THE PROCEDURE TO MONITOR AND CHECK THAT THESE RISK LIMITS ARE FOLLOWED IS CARRIED OUT IN REAL TIME BY THE RISK CONTROL DEPARTMENT, MAINTAINING THE NECESSARY SEGREGATION OF ROLES, AND A PROCEDURE HAS BEEN ESTABLISHED TO AUTHORISE EXCEEDING OF LIMITS. THE MANAGING DIRECTOR IS IMMEDIATELY INFORMED ABOUT ANY EXCEEDING OF LIMITS, WHETHER AUTHORISED OR NOT, AND, IN ADDITION, RISK CONSUMPTION BY COUNTERPART AND EXCEEDING OF LIMITS THAT HAS OCCURRED DURING THE MONTH. FURTHERMORE, THE GOVERNING BOARD IS INFORMED QUARTERLY ABOUT HOW FAR THESE LIMITS ARE BEING MET.

REGARDING MARKET RISKS, THE GOVERNING BOARD HAS SET RISK LIMITS ACCORDING TO PORTFOLIO TYPE. DEPENDING ON THE CHARACTERISTICS OF THESE PORTFOLIOS (NEGOTIATION, STRATEGIC, INSTRUMENTAL, ETC.), THE LIMITS ARE FORMULATED IN TERMS OF VALUE AT RISK (VAR) OR AMOUNT, DELEGATING THE CONTROL OF THESE LIMITS TO THE COAP. MANAGEMENT OF THESE RISKS IS THE RESPONSIBILITY OF THE COAP OR THE TREASURY DEPARTMENT, DEPENDING ON THE TYPE OF PORTFOLIO. THESE RISKS ARE CONTROLLED AND MONITORED BY THE RISK CONTROL DEPARTMENT, WHICH PROVIDES THE COAP WITH MONTHLY INFORMATION ON RISK LEVELS ASSUMED AND ANY EXCEEDING OF THE LIMITS.

EACH QUARTER, THE GOVERNING BOARD IS INFORMED ABOUT THE EVOLUTION OF THESE RISKS AND HOW FAR THE LIMITS ARE BEING MET.

AS FAR AS OPERATIONAL RISK IS CONCERNED, IN SEPTEMBER 2008 CAJA LABORAL PRESENTED BY STANDARD METHOD THE FIRST CALCULATION OF REGULATORY CAPITAL RELATING TO OPERATIONAL RISK, IN ACCORDANCE WITH THE NEW SOLVENCY CIRCULAR (3/2008). THE ENTITY HAS CONSOLIDATED OPERATIONAL RISK, BOTH IN THE QUANTITATIVE AND, ABOVE ALL, IN THE QUALITATIVE SECTION.

IN THE QUANTITATIVE SECTION, THE ENTITY HAS AN INTERNAL DATA BASE OF LOSS EVENTS SINCE 2002, AND SINCE 2011 HAS MADE LOSS COMPARISONS PER EVENT TYPE WITH ENTITIES IN THE SECTOR THAT PARTICIPATE IN THIS BENCHMARKING PROCEDURE COORDINATED BY CECA.

ON THE OTHER HAND, IN THE QUALITATIVE SECTION, CAJA LABORAL IS CARRYING OUT THE FIFTH REVIEW OF THE SELF ASSESSMENTS, CONTROLS, KRIS AND LAUNCH OF THE ACTION PLANS. TO DO SO, THE ENTITY HAS A NETWORK OF 57 COORDINATORS AND 29 OPERATIONAL RISK VALIDATORS CORRESPONDING TO THE DIFFERENT AREAS.

RISK MITIGATION IS MANAGED, ON THE ONE HAND, WITH THE ACTION PLANS IMPLEMENTED BY THE OPERATIONAL RISK COORDINATORS, AND, ON THE OTHER HAND, THROUGH INSURANCE CONTRACTS.

FURTHERMORE, THE ENTITY HAS BEEN PARTICIPATING IN THE CERO GROUP SINCE 2006 (*CONSORCIO ESPAÑOL DE RIESGO OPERACIONAL*), IN ORDER TO MAKE QUALITATIVE PROGRESS IN OPERATIONAL RISK. THE FORUM IS USED TO EXCHANGE EXPERIENCE AND KNOWLEDGE ABOUT MANAGING THIS RISK.

REGARDING INTEREST RATE RISK, THE GOVERNING BOARD DELEGATES THE ROLE OF MANAGING AND CONTROLLING THIS RISK TO THE PROFIT AND LOSS COMMITTEE, WITHIN THE LIMIT SET BY THIS BODY. THIS LIMIT IS SET IN TERMS OF MAXIMUM ADMISSIBLE LOSS BETWEEN TWO SCENARIOS:. THE MARKET SCENARIO AND A LESS FAVOURABLE SCENARIO.

THE COAP SYSTEMATICALLY ANALYSES EXPOSURE TO INTEREST RATE RISK AND THROUGH ACTIVE MANAGEMENT IT ATTEMPTS TO USE ITS DECISIONS TO ANTICIPATE THE NEGATIVE EFFECT UNPREDICTED CHANGES IN THE MARKET INTEREST RATES MIGHT HAVE ON THE INCOME STATEMENT IN THE MID TERM. ITS DECISIONS RELY ON MEASURING THE SAVINGS BANK'S RESULTS IN THE LONG TERM AGAINST DIFFERENT INTEREST RATE SCENARIOS, BY MEANS OF SIMULATIONS THAT LOOK AT THE STRUCTURAL BALANCE AND OFF-BALANCE POSITIONS.

THIS RISK IS MITIGATED BY HEDGING OPERATIONS INSTRUMENTED IN INVESTMENTS IN FINANCIAL ASSETS AND DERIVATIVES.

EACH QUARTER, THE MANAGEMENT INFORMS THE GOVERNING BOARD ABOUT THE EXPOSURE TO THE INTEREST RATE RISK AND HOW FAR THE LIMIT IS MET, AND ABOUT THE DECISIONS THAT HAVE BEEN ADOPTED IN THE COAP IN THIS PERIOD.

FINALLY, MANAGEMENT AND CONTROL OF LIQUIDITY RISK IS ALSO DELEGATED TO THE COAP. THIS RISK IS SEEN IN CAJA LABORAL FROM THE POINT OF VIEW OF SHORT TERM LIQUIDITY AND STRUCTURAL LIQUIDITY. TO MANAGE SHORT TERM LIQUIDITY THERE IS A CONTINGENCY POLICY TO DEAL WITH LIQUIDITY CRISIS SITUATIONS, IN WHICH THE AVAILABILITY OF A CUSHION OF LIQUID ASSETS TAKES ON SPECIAL IMPORTANCE. FROM THE STRUCTURAL POINT OF VIEW, MINIMUM LIQUIDITY AND VARIOUS LIQUIDITY RATIOS HAVE BEEN ESTABLISHED TO ACT AS A REFERENCE IN THE MID AND LONG TERM. WITH

THIS PERSPECTIVE, LIQUIDITY TARGETS ARE SET WITHIN A MID TERM TREASURY PLAN, RUNNING SYSTEMATIC MONITORING OF HOW FAR THESE TARGETS ARE BEING MET. THIS TREASURY PLAN COMPILES FORECASTS ON EVOLUTION OF INVESTIBLE RESOURCES, CREDIT INVESTMENT AND WHOLESALE FINANCING, AND IT IS SYSTEMATICALLY UPDATED, GIVING THE COAP CONTINUOUSLY UPDATED INFORMATION ON THE LIKELY EVOLUTION OF THE STRUCTURAL LIQUIDITY IN THE MID TERM. THIS ALLOWS THE COAP TO ESTABLISH, SUFFICIENTLY FAR IN ADVANCE, APPROPRIATE ACTIONS AIMED AT CORRECTING POSSIBLE IMBALANCES IN THE EVOLUTION OF AGGREGATES THAT AFFECT LIQUIDITY.

AS FAR AS FINANCING IN WHOLESALE MARKETS IS CONCERNED, CAJA LABORAL HAS A SLIGHTLY LOWER EXPOSURE THAN THAT MAINTAINED BY THE SECTOR, DIVERSIFIED IN THE BALANCES USED UNDER THE ECB POLICY, MORTGAGE CERTIFICATE ISSUES AND FINANCING BY MEANS OF SECURITISING ASSETS.

QUARTERLY, THE GOVERNING BOARD IS INFORMED ABOUT HOW LIQUIDITY IS EVOLVING PLUS EXPECTATIONS FOR FURTHER CHANGE.

D.3. In the event that a risk has emerged affecting the company and/or its group, indicate the circumstances that caused it and whether the established control systems worked.

REGARDING THE INTEREST RATE RISK, THE LIMIT SET BY THE GOVERNING BOARD CONTROLLED BY THE COAP HAS NEVER BEEN EXCEEDED.

IN MARKET RISK, THE EXCESSES ARE UNFORESEEN, MEANING IT IS CAUSED BY A REDUCTION IN LIMITS AND NOT DUE TO GROWTH OF THE POSITION. IN THESE CASES, THE CONTROL SYSTEMS HAVE WORKED CORRECTLY, AS THE COAP HAS BEEN INFORMED ABOUT THE EXCESS AND HAS DECIDED TO MAINTAIN THE POSITION OR NOT.

REGARDING THE LIQUIDITY RISK, THE ENTITY IS SATISFACTORILY MANAGING THE SITUATION CAUSED BY THE INTERNATIONAL LIQUIDITY CRISIS GENERATED BY SUBPRIME LOANS, AS SYSTEMATIC MONITORING OF THE ENTITY'S LIQUIDITY AND ANALYSIS OF ITS DEVIATIONS FROM THE FORECASTS AND THE MONTHLY TREASURY PLANS ARE ALLOWING SUFFICIENT TIME TO ANTICIPATE POSSIBLE MID-TERM IMPACTS, GENERATING THE NECESSARY CORRECTIVE ACTIONS IN ENOUGH TIME. IN ADDITION, THE ENTITY HAS DRAWN UP A LIQUIDITY CONTINGENCY PLAN THAT SETS STRATEGIES FOR EMERGENCY LIQUIDITY SITUATIONS.

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 AN IMMEDIATELY HIGHER LEVEL OF ATTRIBUTIONS. WHEN OPERATING WITH FINANCIAL ENTITIES AND LARGE CORPORATIONS, ANY EXCEEDING OF LIMITS, WHETHER AUTHORISED OR NOT, HAVE BEEN DULY NOTIFIED TO THE DIFFERENT BODIES ACCORDING TO THE PROCEDURES IN PLACE.

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.

D.4. Indicate whether there are any committees or other governing bodies in charge of establishing and supervising these control devices and give details of their functions.

THE RISK CONTROL UNITS AND THE CONTROL PROCEDURES FOR THE DIFFERENT RISKS ARE SUPERVISED BY THE INTERNAL AUDIT DEPARTMENT AS PART OF ITS DAILY WORK.

FURTHERMORE, IN JUNE 2003 THE AUDIT COMMITTEE WAS SET UP, FORMED BY THREE MEMBERS OF THE GOVERNING BOARD, WITH A MAJORITY OF NON-EXECUTIVE MEMBERS. THE COMPETENCES OF THIS COMMITTEE INCLUDE SUPERVISING INTERNAL AUDIT SERVICES AND FINDING OUT ABOUT THE FINANCIAL INFORMATION PROCESS AND THE COMPANY'S INTERNAL CONTROL SYSTEMS. IN THIS RESPECT, THE AUDIT COMMITTEE IS INFORMED BY MEANS OF A GENERALLY QUARTERLY REPORT ABOUT THE DIFFERENT INTERNAL AUDITING SERVICES PERFORMED IN THE PERIOD, INCLUDING, WHEN APPROPRIATE, THE AUDITS ON THE RISK CONTROL PROCEDURES.

THE COMMITTEE'S COMPETENCES INCLUDE PROPOSING TO THE GENERAL MEETING THE APPOINTMENT, EXTENSION OR RESIGNATION OF THE EXTERNAL AUDITORS AND REQUESTING INFORMATION FROM THEM ABOUT THE ACCOUNTS AUDIT AND IN GENERAL, ON THE RISK CONTROL.

E GENERAL COUNCIL OR EQUIVALENT BODY

E.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 Corporate Enterprises Act (LSA) or the regulations that apply to it.

IN ACCORDANCE WITH THAT ESTABLISHED WITH THE 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.

E.2. Explain the system for adopting company agreements. Describe how it differs from the system stated in the LSA or the regulations that apply to it.

APPLYING THE COOPERATIVE LEGISLATION, AGREEMENT MUST BE ADOPTED, AS A GENERAL RULE, BY MORE THAN HALF OF THE VALIDLY CAST VOTES. IN THE EVENT OF MERGER, SPLIT, 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.

E.3. List the rights of the shareholders or participants in relation to the council or equivalent body.

IN RELATION TO GENERAL MEETINGS, SHAREHOLDERS HAVE THE FOLLOWING RIGHTS:

A) TO ATTEND ALL GENERAL MEETINGS, TO WHICH THEY WILL BE CALLED MERELY DUE TO THEM BEING A SHAREHOLDER IN THE ENTITY.

B) TO FORMULATE PROPOSALS AND PARTICIPATE WITH SPEAKING AND VOTING RIGHTS IN THE ADOPTION OF AGREEMENTS.

C) TO RECEIVE THE INFORMATION NECESSARY TO EXERCISE THEIR RIGHTS AND MEET THEIR OBLIGATIONS. SPECIFICALLY, IN RELATION TO THE GENERAL MEETING, THEY CAN:

- EXAMINE DOCUMENTATION RELATING TO THE ANNUAL ACCOUNTS, THE DISTRIBUTION OF SURPLUSES AND ANY ECONOMIC MATTERS TO BE DISCUSSED AT THE MEETING.

- REQUEST IN WRITING, CONCERNING THE AFOREMENTIONED DOCUMENTATION, ANY EXPLANATIONS OR CLARIFICATIONS THEY BELIEVE TO BE RELEVANT SO THAT THEY CAN BE ANSWERED IN THE MINUTES OF THE MEETING, AS LONG AS THEY ARE DULY REQUESTED FIVE DAYS BEFORE IT IS HELD.

- REQUEST IN WRITING THE CLARIFICATIONS AND REPORTS THAT THEY CONSIDER NECESSARY ON ANY ASPECT OF THE ENTITY.

TO BE ANSWERED BY THE GOVERNING BOARD AT THE FIRST GENERAL MEETING HELD EIGHT DAYS OR MORE AFTER PRESENTING THIS IN WRITING.

E.4. Indicate briefly the agreements 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 agreements were adopted.

DURING THE YEAR THE AGREEMENTS ADOPTED BY THE ANNUAL GENERAL MEETING HELD ON 21 April 2012, 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).

- EXTENDING THE APPOINTMENT OF PRICEWATERHOUSECOOPERS AS AUDITORS OF THE ANNUAL ACCOUNTS FOR THE 2012 FINANCIAL YEAR (UNANIMOUSLY).

- PAY INTEREST INTO SHARE CAPITAL (UNANIMOUSLY).

- UNIFY BALANCES DISTRIBUTED IN VARIOUS RESERVES INTO ONE SOLE VOLUNTARY RESERVES SECTION (UNANIMOUSLY).

- APPROVE THE ADMISSION OF VOLUNTARY CONTRIBUTIONS TO SHARE CAPITAL, ESTABLISHING THE CONDITIONS (UNANIMOUSLY).

- AMEND ARTICLES 23 TO 29 OF THE INTERNAL REGULATION ON THE RECONCILIATION OF WORK AND PRIVATE LIFE (UNANIMOUSLY).

- APPROVING INCOME QUOTAS AND CONTRIBUTIONS TO REGISTERED CAPITAL FROM NEW SHAREHOLDERS (UNANIMOUSLY).

- ESTABLISHING THAT THE 2013 GENERAL MEETING WILL DETERMINE THE INTEREST DUE ON CONTRIBUTIONS TO REGISTERED CAPITAL CORRESPONDING TO 2012, AND NONETHELESS AUTHORISING THE GOVERNING BOARD TO MAKE PAYMENTS ON ACCOUNT. (UNANIMOUSLY).

FURTHERMORE, ON 30 JUNE 2012 THE EXTRAORDINARY GENERAL ASSEMBLY WAS HELD, AND APPROVAL WAS GIVEN TO THE MERGER BETWEEN CAJA LABORAL AND IPAR KUTXA RURAL TO CREATE A NEW CREDIT COOPERATIVE CALLED CAJA LABORAL POPULAR COOP. DE CREDITO (UNANIMOUSLY).

E.5. Indicate the address and how to access the corporate governance content on its website.

THE ENTITY'S WEBSITE IS WWW.CAJALABORAL.COM AND TO ACCESS THE CORPORATE GOVERNANCE CONTENT YOU HAVE TO CLICK ON CORPORATE INFORMATION AND THEN REPORTS/CORPORATE GOVERNANCE. THIS INFORMATION CAN ALSO BE ACCESSED DIRECTLY AT WWW.CAJALABORAL.COM/GOBIERNO CORPORATIVO.

E.6. State whether meetings have been held for the different syndicates 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 agreements adopted.

THERE ARE NO SYNDICATES FOR HOLDERS OF SHARES ISSUED BY THE ENTITY.

F DEGREE OF MONITORING OF GOOD GOVERNANCE (ADAPTING TO THE UNIFIED CODE)

Indicate how far the entity meets the existing corporate governance recommendations or, when appropriate, the non-assumption of any of these recommendations.

In the event of not meeting any of them, explain the recommendations, standards, practices or criteria that the entity actually applies.

If the single document referred to in ORDER ECO/3722/2003, dated 26 December, is not drawn up, the recommendations from the Olivencia Report and the Aldama Report should be taken as a reference to complete this section insofar as they can be applied to your entity.

CAJA LABORAL POPULAR IS A CREDIT COOPERATIVE THAT IS REGULATED, AS FAR AS ITS COMPANY-BASED OPERATION IS CONCERNED, BY THE CREDIT COOPERATIVES ACT (LAW 13/1989, DATED 26 MAY), THE REGULATIONS DERIVED FROM THIS ACT (ROYAL DECREE 84/1993, DATED 22 JANUARY) AND THE COOPERATIVES ACT (LAW 27/1999, DATED 16 JULY), WHICH ARE BASED ON WHAT ARE KNOWN AS COOPERATIVE PRINCIPLES, FORMULATED BY THE INTERNATIONAL COOPERATIVE ALLIANCE.

THESE PRINCIPLES AND THEIR IMPLEMENTING LEGISLATION PROVIDE OPERATING RULES THAT DIFFER FROM THOSE OF LISTED COMPANIES.

THE UNIFIED GOOD GOVERNANCE CODE, APPROVED BY THE SPANISH STOCK MARKET COMMISSION (CNMV) AS A SINGLE DOCUMENT ON 22/05/2006, IS AIMED AT WHAT ARE KNOWN AS LISTED COMPANIES.

FOR THIS REASON, BELOW WE WILL GIVE THE LEVEL OF COMPLIANCE WITH THESE RECOMMENDATIONS WITHIN THE UNIFIED CODE WHICH, IN ONE WAY OR ANOTHER, ARE CONSIDERED TO APPLY TO THE NATURE AND COOPERATIVE PRINCIPLES OF OUR COOPERATIVE ORGANISATION (NON-LISTED COMPANY).

OBVIOUSLY, IT SHOULD BE STATED THAT THESE RECOMMENDATIONS, DUE TO THEIR ORIENTATION, DO NOT APPLY TO THE NATURE, PRINCIPLES OR SPECIFIC FEATURES OF THE ENTITY.

ARTICLES OF ASSOCIATION AND GENERAL MEETING

STATUTORY LIMITATIONS. RECOMMENDATION 1

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE, ITS PRINCIPLES AND THE FACT THAT IT IS NOT LISTED IN CAPITAL MARKETS.

CONTRIBUTION OF COMPANIES INCLUDED IN GROUPS. RECOMMENDATION 2

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE, ITS PRINCIPLES AND THE FACT THAT IT IS NOT LISTED IN CAPITAL MARKETS.

COUNCIL COMPETENCIES. RECOMMENDATION 3

IN LINE WITH THE RECOMMENDATION ESTABLISHED IN THE UNIFIED CODE, THE ARTICLES OF ASSOCIATION ESTABLISH THAT THE GENERAL MEETING, AS THE RULING BODY, HAS DIFFERENT EXCLUSIVE COMPETENCES INCLUDING OPERATIONS THAT LEAD TO A STRUCTURAL MODIFICATION:

- MERGER, SPLIT, TRANSFORMATION AND DISSOLUTION OF THE COMPANY.

- ANY OTHER DECISION THAT REPRESENTS A SUBSTANTIAL MODIFICATION TO THE ECONOMIC, SOCIAL, ORGANISATIONAL OR FUNCTIONAL STRUCTURE OF THE COOPERATIVE, CONSIDERING A SUBSTANTIAL MODIFICATION TO BE ONE THAT AFFECTS AT LEAST 25% OF OWN RESOURCES, INCOME FOR THE FINANCIAL YEAR OR WORKING PARTNER EMPLOYMENT LEVELS.

PRIOR INFORMATION ON AGREEMENT PROPOSALS. RECOMMENDATION 4

IN LINE WITH THE RECOMMENDATION ESTABLISHED IN THE UNIFIED CODE, THE PROPOSALS FOR AGREEMENTS TO BE ADOPTED AT THE GENERAL MEETING ARE NOTIFIED ON THE SAME DAY AS THE CALL TO MEETING, IN SUFFICIENT DETAIL AND WITH ENOUGH NOTICE (AT LEAST FIFTEEN DAYS). THESE ASPECTS ARE BASICALLY REGULATED BY ARTICLE 28 OF THE COMPANY ARTICLES OF ASSOCIATION.

SEPARATE VOTING ON MATTERS. RECOMMENDATION 5

MATTERS THAT ARE SUBSTANTIALLY INDEPENDENT ARE TREATED, FOR VOTING PURPOSES, SEPARATELY AND EXCLUSIVELY, BOTH IN TERMS OF ECONOMIC MATTERS AND OTHERS THAT AFFECT ENTITY POLICY, SUCH AS APPOINTING NEW BOARD MEMBERS OR AMENDMENTS TO THE ARTICLES OF ASSOCIATION.

SPLITTING THE VOTE. RECOMMENDATION 6

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE, ITS PRINCIPLES AND THE FACT THAT IT IS NOT LISTED IN CAPITAL MARKETS.

GOVERNING BOARD

SOCIAL INTEREST. RECOMMENDATION 7

THE COOPERATIVE'S OWN PHILOSOPHY, ITS MISSION, PRINCIPLES AND VALUES, AS WELL AS THE HISTORY OF ACTIVITY, ARE IMPREGNATED WITH COMMITMENT AND SOCIAL INTEREST.

THE CORPORATE SOCIAL RESPONSIBILITY REPORT, DRAWN UP IN COMPLIANCE WITH THE 2006 GUIDE ON THE GLOBAL REPORTING INITIATIVE (GRI), TRANSPARENTLY TRANSFERS TO THE DIFFERENT INTEREST GROUPS THE ACTIONS AND COMMITMENTS OF THE ENTITY TO SOCIETY IN THREE ASPECTS: ECONOMIC, SOCIAL AND ENVIRONMENTAL.

BOARD COMPETENCES. RECOMMENDATION 8

THE GOVERNING BOARD, AS ESTABLISHED IN ARTICLE 35 OF THE ARTICLES OF ASSOCIATION, IS A COLLEGIATE BODY IN CHARGE OF SUPERVISING THE MANAGEMENT AND MAKING SURE THAT CAJA LABORAL COMPLIES WITH THE LAW, THE ARTICLES OF ASSOCIATION AND THE POLICIES FIXED BY THE GENERAL MEETINGS.

IN LINE WITH THE UNIFIED CODE, THIS BOARD HAS EXTENSIVE POWERS FOR DEVELOPING ITS CORE MISSION, SUCH AS CONTROLLING GOOD GOVERNANCE OF THE COMPANY.

THIS BOARD HAS A SERIES OF EXCLUSIVE POWERS REFERRING TO:

- APPROVAL OF THE ENTITY'S GENERAL POLICIES AND STRATEGIES, STRATEGIC PLAN AND ANNUAL MANAGEMENT PLAN, THE CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY POLICY, RISK MANAGEMENT AND CONTROL POLICIES, INVESTMENT AND FINANCING POLICY PLUS THE FORMULATION OF ANNUAL ACCOUNT AND PROPOSAL TO DISTRIBUTE THE SURPLUS.

- DECISIONS ON APPOINTMENTS OR REMOVAL OF TOP MANAGERS, SETTING THEIR POWERS, DUTIES AND SALARY LEVEL; DECISIONS ON CERTAIN INVESTMENTS OR RISK OPERATIONS INVOLVING HIGH AMOUNTS, ACQUISITIONS OR BUYING SHARES IN CERTAIN COMPANIES AND CERTAIN FINANCIAL ISSUES TO OBTAIN FINANCING IN WHOLESALE MARKETS.

- CONCESSION OF POWERS TO CERTAIN PEOPLE AND APPROVAL OF PROFESSIONAL CODES OF CONDUCT IN GENERAL, AND IN MATTERS RELATING TO LINKED OPERATIONS IN PARTICULAR.

SIZE. RECOMMENDATION 9

THE FIRST GOVERNING BOARD OF THE ENTITY RESULTING FROM THE MERGER BETWEEN CAJA LABORAL POPULAR COOP DE CREDITO AND IPAR KUTXA RURAL S. COOP. DE CREDITO IS COMPOSED OF 15 MEMBERS. ONCE FOUR YEARS HAVE PASSED SINCE ITS ESTABLISHMENT THE NUMBER OF MEMBERS WILL DECREASE TO 12, THIS NUMBER BEING CONSIDERED FAIR AND REPRESENTATIVE WITH REGARD TO THE WORKING PARTNERS (4) AND REMAINING PARTNERS (8).

FUNCTIONAL STRUCTURE. RECOMMENDATION 10

GIVEN THAT THE ENTITY IS A COOPERATIVE, ELEVEN OF THE FIFTEEN MEMBERS THAT MAKE UP THE GOVERNING BOARD COME FROM OUTSIDE THE ENTITY, I.E. THEY ARE NOT WORKING PARTNERS.

THE OTHER FOUR MEMBERS ARE INTERNAL, MEANING THAT THEY ARE WORKING PARTNERS AT THE ENTITY, BUT DO NOT BELONG TO THE GOVERNING BOARD.

OTHER BOARD MEMBERS. RECOMMENDATION 11

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE.

PROPORTION OF INDEPENDENT AND PROPRIETARY BOARD MEMBERS. RECOMMENDATION 12

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE.

SUFFICIENT NUMBER OF INDEPENDENT BOARD MEMBERS. RECOMMENDATION 13

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE.

EXPLANATION OF THE CHARACTER OF BOARD MEMBERS. RECOMMENDATION 14

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE.

GENDER DIVERSITY. RECOMMENDATION 15

THE PROCESS OF APPOINTING CANDIDATES FOR THE GOVERNING BOARD IS DEMOCRATIC AND DOES NOT CREATE OBSTACLES TO THE SELECTION OF FEMALE BOARD MEMBERS.

THE PROCESS ITSELF AND THE COOPERATIVE NATURE OF THE ENTITY PREVENT ANY DISCRIMINATION IN EITHER DIRECTION.

CHAIR. RECOMMENDATIONS 16 AND 17

THE ARTICLES OF ASSOCIATION FORMALLY RECOGNISE THE BOARD MEMBERS' RIGHTS, AS PARTNERS, TO RECEIVE THE NECESSARY INFORMATION TO EXERCISE THEIR RIGHTS AND MEET THEIR OBLIGATIONS, AS WELL AS THE RIGHT TO OPINION AND DEBATE (RECOMMENDATION 16).

RECOMMENDATION 17 OF THE UNIFIED CODE IS NOT CONSIDERED APPLICABLE TO CAJA LABORAL, IN VIEW OF THE NATURE OF THE COMPANY AND THE TYPOLOGY OF THE MEMBERS OF THE GOVERNING BOARD.

SECRETARY. RECOMMENDATION 18

IN ADDITION TO BEING A MEMBER OF THE GOVERNING BOARD AND TAKING CARE OF ASPECTS OF THE FORMAL AND MATERIAL LEGALITY OF THE BOARD'S ACTIONS, THE SECRETARY PARTICIPATES IN ONE OF THE DELEGATED CONTROL COMMISSIONS (AUDIT COMMITTEE), WHICH GUARANTEES AND REINFORCES THEIR ROLE WITHIN THE GOVERNING BOARD.

THE SECRETARY IS APPOINTED AND REMOVED ON THE DECISION OF THE MEMBERS OF THE GOVERNING BOARD (ART. 36.4).

RUNNING THE SESSIONS. RECOMMENDATIONS 19, 20 AND 21

THERE IS AN ANNUAL CALENDAR OF SCHEDULED SESSIONS ACCORDING TO THE ARTICLES OF ASSOCIATION (ART. 38) AND MONTHLY MEETINGS ARE ORGANISED FOR THE GOVERNING BOARD WITH ORDINARY CALLS TO MEETING.

ALSO, THE BOARD CAN MEET EXTRAORDINARILY AT THE REQUEST OF AT LEAST TWO OF ITS MEMBERS, THE MANAGING DIRECTOR OR THE SOCIAL COUNCIL OR ON REQUEST FROM THE MAJORITY OF ITS COMPONENTS.

NON-ATTENDANCE IS QUANTIFIED BY BOARD MEMBERS' ESSENTIAL CASES AND THIS IS RECORDED IN THE MINUTES OF THE MEETING (RECOMMENDATION 20).

THE MINUTES SHOULD ALSO INCLUDE ANY CONCERNS FROM BOARD MEMBERS ABOUT THE COMPANY'S PROGRESS (RECOMMENDATION 21).

PERIODIC EVALUATION. RECOMMENDATION 22

WITHOUT ANY PRE-SET FREQUENCY, THE BOARD EVALUATES THE QUALITY AND EFFICIENCY OF ITS WORK.

INFORMATION TO BOARD MEMBERS. RECOMMENDATIONS 23, 24 AND 25

PRIOR TO THE MEETING, BOARD MEMBERS ARE GIVEN SUFFICIENT INFORMATION. PROVISION IS ALSO MADE FOR REQUESTING CLARIFICATIONS PRIOR TO THE MEETING WHEN TECHNICALLY COMPLEX MATTERS ARE INVOLVED (RECOMMENDATION 23).

BOARD MEMBERS HAVE THE RIGHT TO OBTAIN FROM THE COMPANY THE ADVICE THAT THEY NEED TO CARRY OUT THEIR DUTIES (RECOMMENDATION 24).

THE ENTITY HAS AN ANNUAL PROGRAM TO GUIDE AND PROVIDE NEW BOARD MEMBERS WITH SUFFICIENT KNOWLEDGE OF THE FUNDAMENTAL ACTIVITIES AND AREAS OF THE COMPANY AND ALSO REGARDING COMPLIANCE WITH THEIR DUTIES (RECOMMENDATION 25).

BOARD MEMBERS' DEDICATION. RECOMMENDATION 26

THE ORGANISATION REQUIRES SUFFICIENT DEDICATION OF TIME AND EFFORT FROM ITS BOARD MEMBERS TO FULFIL THEIR ROLE EFFECTIVELY, AND WHEN APPROPRIATE, THEY SHOULD NOTIFY ANY DISRUPTION TO THEIR DEDICATION (OTHER BOARDS OR OTHER PROFESSIONAL OBLIGATIONS) AND THERE ARE RULES ABOUT THE NUMBER OF BOARDS THAT ITS BOARD MEMBERS CAN JOIN.

ON THE OTHER HAND, PARTICIPATION AS A BOARD MEMBER IN OTHER CREDIT ENTITIES IS ESTABLISHED AS INCOMPATIBLE IN THE ARTICLES OF ASSOCIATION (ART.37).

BOARD MEMBERS

RECRUITMENT, APPOINTMENT AND RE-ELECTION. RECOMMENDATION 27

ELECTING GOVERNING BOARD MEMBERS, WHO ARE ELECTED FOR A PERIOD OF FOUR YEARS (WITH 50% OF BOARD MEMBERS BEING REPLACED EVERY TWO YEARS), FOLLOWS A FORMAL, OPEN AND DEMOCRATIC PROCESS OF PRESENTATION AND SELECTION OF CANDIDATES (ONE PARTNER, ONE VOTE).

FINALLY, THE GENERAL MEETING MAKES THE CHOICE OF THE MEMBERS FROM THE CANDIDATES SHORTLISTED IN THE PREVIOUS PROCESS, AS LONG AS THERE ARE NO INCOMPATIBILITIES AS GIVEN IN THE ARTICLES OF ASSOCIATION (ART. 37).

PUBLIC INFORMATION ABOUT BOARD MEMBERS. RECOMMENDATION 28

INFORMATION IS NOT HELD ON THE WEBSITE ON THE PROFESSIONAL PROFILE OR BIOGRAPHY OF THE BOARD MEMBERS. SOME PUBLISHABLE CONTENT COMPILED IN THE RECOMMENDATION (NUMBER OF SHARES HELD IN THE COMPANY, INDICATION OF BOARD MEMBER CATEGORY, ETC.) DOES NOT APPLY TO CAJA LABORAL BECAUSE IT IS A COOPERATIVE.

ROTATION OF INDEPENDENT BOARD MEMBERS. RECOMMENDATION 29

THE UNIFIED CODE RECOMMENDATION DOES NOT APPLY TO CAJA LABORAL IN VIEW OF ITS COOPERATIVE NATURE AND THE CONTEXT AND THE DEFINITION THAT APPEARS IN THE INDEPENDENT BOARD MEMBERS' CODE.

REMOVAL AND RESIGNATION. RECOMMENDATIONS 30, 31, 32, 33 AND 34

THE ARTICLES OF ASSOCIATION ESTABLISH (ARTICLE 37) A SERIES OF INCOMPATIBILITIES FOR BEING A MEMBER OF THE GOVERNING BOARD AND THIS WILL LEAD TO IMMEDIATE DISMISSAL AT THE REQUEST OF ANY PARTNER, WITHOUT PREJUDICE TO THE LIABILITY THAT MAY BE INCURRED DUE TO DISHONEST CONDUCT.

IN LINE WITH RECOMMENDATION 32 OF THE UNIFIED CODE, THESE INCOMPATIBILITIES INCLUDE BEING INVOLVED IN A COURT, DISCIPLINARY OR CRIMINAL HEARING THAT MIGHT AFFECT THE COMPANY'S REPUTATION.

OTHER RECOMMENDATIONS (30, 31, 33), AIMED AT CERTAIN BOARD MEMBER PROFILES (PROPRIETARY AND INDEPENDENT), ARE NOT APPLICABLE TO CAJA LABORAL GIVEN THAT IT IS A COOPERATIVE.

PAYMENT. RECOMMENDATIONS 35, 36, 37, 38 AND 39

THE ARTICLES OF ASSOCIATION STATE THAT PAYMENT TO MEMBERS OF THE GOVERNING BOARD WILL BE MADE WHEN THEY CARRY OUT DIRECT MANAGEMENT TASKS, ADAPTING PAYMENT TO THE LEVELS ESTABLISHED FOR WORKING PARTNERS. IN

PRACTICE THIS SITUATION DOES NOT OCCUR, WITHOUT DETRIMENT TO COMPENSATION FOR EXPENSES INCURRED BY THEIR DUTIES.

THERE ARE THEREFORE NO PAYMENTS TO BOARD MEMBERS FOR DOING THEIR JOB, NEITHER FIXED NOR WITH VARIABLE COMPONENTS, NOR BASED ON COMPANY RESULTS, SO THAT IN LINE WITH RECOMMENDATIONS 37, 38 AND 39, THE PAYMENT SYSTEM DOES NOT COMPROMISE THEIR INDEPENDENCE.

OTHER RECOMMENDATIONS FROM THE CODE (35 AND 36) AIMED AT OTHER COMPONENTS OR PAYMENT SYSTEMS MORE SUITED TO LIMITED COMPANIES (SHARES, OPTIONS, PENSION SCHEMES, OTHER VARIABLE COMPONENTS, ETC.) DO NOT APPLY TO THE ENTITY AS IT IS A COOPERATIVE.

CONSULTING VOTE BY THE GENERAL COUNCIL. RECOMMENDATION 40

THE CODE RECOMMENDATION BASICALLY AIMED AT THE BOARD MEMBERS' PAYMENT POLICY DOES NOT APPLY TO THE COOPERATIVE DUE TO ITS NATURE AND PAYMENT POLICY.

INDIVIDUAL PAYMENT TRANSPARENCY. RECOMMENDATION 41

THE CODE RECOMMENDATION BASICALLY AIMED AT PUBLISHING, IN DETAIL AND INDIVIDUALLY, THE TYPE AND QUANTITY OF BOARD MEMBERS' PAYMENTS, DOES NOT APPLY TO THE COOPERATIVE BECAUSE NO PAYMENTS OF ANY TYPE ARE MADE (CASH OR IN KIND) FOR HOLDING THE POSITION OF MEMBER OF THE GOVERNING BOARD.

REGARDING THE CONTENTS OF THIS RECOMMENDATION, IT IS NOT POSSIBLE TO BE PART OF THE TOP MANAGEMENT AND A MEMBER OF THE GOVERNING BOARD.

COMMITTEES.

DELEGATE COMMITTEE. RECOMMENDATIONS 42 AND 43

THE CODE RECOMMENDATIONS DO NOT APPLY DUE TO THE FACT THAT THERE IS NO DELEGATE COMMITTEE FOR THE GOVERNING BOARD.

HOWEVER, IT MUST BE STATED THAT THE CHAIRMAN OF THE GOVERNING BOARD IS A MEMBER OF SEVERAL EXECUTIVE COMMITTEES (BOARD OF DIRECTORS, PROFIT AND LOSS COMMITTEE AND SOCIAL BODIES (SOCIAL COUNCIL), TO STRENGTHEN THE GOVERNING BOARD'S SUPERVISORY ROLE.

SUPERVISION AND CONTROL COMMITTEES. RECOMMENDATIONS 44 AND 45

AN APPOINTMENTS AND REMUNERATION COMMITTEE AND AN AUDIT COMMITTEE HAS BEEN ESTABLISHED, EACH COMPOSED OF THREE MEMBERS OF THE GOVERNING BOARD, AND RELEVANT MINUTES WILL BE TAKEN OF THEIR MEETINGS (RECOMMENDATION 44)

IN RELATION TO RECOMMENDATION 45 OF THE UNIFIED CODE, MONITORING THE CODE OF PROFESSIONAL CONDUCT, WHICH IS APPROVED BY THE GOVERNING BOARD, IS ENTRUSTED TO THE ETHICS COMMITTEE CONTROLLED BY THE DEPARTMENT OF HUMAN RESOURCES AND COMPOSED OF PEOPLE WITH POSITIONS IN THE EXECUTIVE LINE OF THE COOPERATIVE.

THIS CODE AFFECTS ALL THOSE WHO CARRY OUT PROFESSIONAL ACTIVITIES AND WHO OCCUPY SOCIAL POSITIONS IN THE ENTITY AND IT CONTAINS THE ETHICAL PRINCIPLES FOR ACTION SUCH AS INDEPENDENCE, PROFESSIONALISM, RESPONSIBILITY AND CONFIDENTIALITY.

ON THE OTHER HAND, THE INTERNAL CODE OF CONDUCT, IN THE AREA OF THE SECURITIES MARKET, IN ADDITION TO THE FIELD OF SPECIFIC ACTIVITY, ALSO APPLIES TO THE MEMBERS OF THE GOVERNING BOARD.

AUDIT COMMITTEE. RECOMMENDATIONS 46, 47, 48, 49, 50, 51, 52 AND 53

THE GOVERNING BOARD HAS A SERIES OF POWERS THAT CANNOT BE DELEGATED RELATED TO ITS SUPERVISORY ROLE.

WITHIN FINANCIAL LAW, THE AUDIT COMMITTEE IS SET UP WITHIN THE HEART OF THE GOVERNING BOARD.

THE PEOPLE WHO MAKE UP THE COMMITTEE HAVE BEEN DESIGNATED TAKING ACCOUNT OF THEIR KNOWLEDGE AND EXPERIENCE IN FINANCIAL MATTERS (RECOMMENDATION 46).

THE ENTITY HAS AN INTERNAL AUDIT FUNCTION (RECOMMENDATION 47), AT TOP MANAGEMENT LEVEL OF THE COOPERATIVE, WHICH REPORTS REGULARLY TO THE AUDIT COMMITTEE. THIS GIVES THIS COMMITTEE ELEMENTS OF JUDGEMENT AND CONTRAST.

THE AUDIT COMMITTEE WILL BE REGULARLY INFORMED ABOUT THE ANNUAL WORK PLAN AND ITS RELATED ACTIVITIES (RECOMMENDATION 48).

THE RISK CONTROL AND MANAGEMENT POLICY (RECOMMENDATION 49) IS WIDE AND COVERS THE CREDIT, OPERATIONAL, MARKET, LEGAL AND REPUTATIONAL RISKS. FURTHERMORE, THE ENTITY HAS IMPLEMENTED ADVANCED CREDIT RISK METHODS (BIS II).

DURING THE FIRST FOUR YEARS OF ACTIVITY OF THE NEW ENTITY, THE AUDIT COMMITTEE WILL BE COMPOSED OF FOUR GOVERNING DIRECTORS, ONE FROM THE GOVERNING BOARD OF IPAR KUTXA AND THREE FROM THE OLD CAJA LABORAL POPULAR.

THEIR ROLES COVER EVERYTHING LAID DOWN IN THE FINANCE ACT (RECOMMENDATION 50).

IT IS LAID DOWN AND IS BEING PRACTISED THAT THE AUDIT COMMITTEE CAN SUMMON ANY EMPLOYEE OR MANAGER FROM THE COOPERATIVE (RECOMMENDATION 51).

PRIOR TO APPROVAL OF THE ANNUAL ACCOUNTS BY THE GOVERNING BOARD, THEY ARE PRESENTED TO THE AUDIT COMMITTEE.

THE GOVERNING BOARD MUST MAKE SURE THAT THEY ARE FORMULATED WITHOUT RESERVATIONS OR EXCEPTIONS IN THE AUDIT REPORT (RECOMMENDATION 53). HOWEVER, WHEN THE BOARD CONSIDERS THAT ITS CRITERIA MUST BE MAINTAINED, IT WILL EXPLAIN THE CONTENT PUBLICLY AND THE SCOPE OF THE DISCREPANCY.

APPOINTMENTS AND REMUNERATION COMMITTEES RECOMMENDATIONS 54, 55, 56, 57 AND 58

THERE IS AN APPOINTMENTS AND REMUNERATION COMMITTEE.

MATTERS RELATED TO THESE RECOMMENDATIONS, SUCH AS SETTING THE PAYMENTS OF BOARD MEMBERS, DO NOT APPLY BECAUSE THEY ARE NOT INCLUDED OR BECAUSE OF THE NATURE OF THE COOPERATIVE COMPANY.

G OTHER INFORMATION OF INTEREST

If you consider that there are any principles or relevant aspect related to the corporate governance practices applied by your entity that have not been covered in this report, please mention this and explain its content below.

Within this section, you can include any other information, clarification or nuance relating to the previous sections of the report as long as it is relevant and does not repeat what you have already stated.

Specifically, indicate whether the entity is subject to 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.
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This annual corporate government report has been approved by the entity's board or administrative body at its session held on 26-3-2013.

Indicate the Board or Administrative Body Members that have voted against or have abstained from voting to approve this Report.

Internal Risk Control and Management Systems related to the process of issuing financial information (FIICS)

Introduction

In the current context, Caja Laboral Popular, Cooperativa de Crédito (hereinafter "the Entity", "Caja Laboral" or "the Group") has established internal control mechanisms that aim to guarantee that the financial information published in the markets, related to both the Entity and its Group, is full, reliable and relevant.

However, the recent merger process of Caja Laboral Popular, Cooperativa de Crédito and Ipar Kutxa Rural, Sociedad Cooperativa de Crédito, formalised via a public deed on 31 October 2012 and recorded in the Company Register of Gipuzkoa on 2 November 2012, means it is necessary to design a new Financial Information Internal Control System (hereinafter "FIICS) that is adapted to the reality of the New Entity. It is predicted that it will be completed during the 2013 financial year. Therefore, some aspects of the FIICS are at the implementation phase, and a series of milestones and action plans has been established for them to meet requirements and adopt best practice in these areas.

For the design of the FIICS, the content included in the guide *Internal Control Document on the financial information of listed companies* published by the Spanish National Stock Market Commission (CNMV) has been followed. Therefore, the terminology used in this document is associated with the definitions included in the above-mentioned guide.

Below is a general overview of the Caja Laboral FIICS, with a description of its main elements.

1. Entity control environment

1.1. Which bodies and/or tasks are responsible for: (i) the existence and maintenance of a suitable and effective FIICS; (ii) its implementation; and (iii) its supervision.

Section 3.6 "Information reliability" of the Caja Laboral Code of Ethics and Professional Behaviour, defines both the governing bodies and the tasks entrusted to each, with regard to the FIICS:

*“The **Governing Board of Caja Laboral** is ultimately responsible for establishing, maintaining and ensuring that a suitable and efficient FIICS that controls and guarantees that financial information published in the markets, regarding both the Entity itself and the Group, is complete, reliable and relevant.”*

*"The **Governing Board** and the **Internal Audit Area** are responsible for designing and implementing effective control procedures that guarantee permanent reliability of the financial information supplied to the market. For this purpose, it will provide the Entity with sufficient human resources and materials, giving the people involved in preparing the financial information the training necessary for them to carry out their duties."*

1.2. If they exist, especially regarding the process of preparing financial information, the following elements:

1.2.1 Departments and/or mechanisms are 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.

The design and review of the organisational structure is the responsibility of the Organisation Department, which analyses and reviews the need for resources of each Area so that it can be met. This review, which takes place in the central services Areas and Departments when the need arises to adapt their organisational structure, not only decides the template required but also validates the organisational structure of each unit.

Thus, within the scope of the commercial branch network, each month, using a computer application designed for the purpose, the work load of each branch is measured. This information is transferred to the General Management, the Social Management Division (HR) and the Commercial Network Management to apply the adjustments that need to be made to resources.

Similarly, the Organisation Department is also responsible for defining the lines of responsibility and authority in each area of action, and for the duties and tasks carried out therein, publishing them in the directory of each area. The preparation of an Organisation Manual is planned for 2013, and it will be the sole reference for all the duties carried out at the Organisation.

The Caja Laboral organisational chart, which is the result of a permanent review process of the organisational structure, is published on the Corporate Intranet, which can be accessed by all personnel.

1.2.2 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, whose last action was approved by the Governing Board in November 2012.

The Code of Ethics and Professional Conduct states, in section 3.6, those aspects that should be taken into account with regard to the reliability of financial information, highlights including:

- *"Caja Laboral is responsible for providing reliable, precise, complete and relevant financial information about its financial statementsand about any events that could lead to a significant impact on these statements.*

- *In addition to the procedures established in the Group to ensure that financial information is prepared in accordance with current assessment principles and rules, all work partners and employees are obliged to diligently comply with tasks related to the recording and treatment of information, which constitute the basis of the Group's public financial information preparation process.*

- *The application of this responsibility is particularly important with regard to data and reports necessary for preparing the financial statements of the Group, given that their appropriate recording and interpreting are essential in order to ensure the correct application of the assessment criteria corresponding to each balancing item, transaction or contingency.*

All personnel bound by the Code of Ethics and Professional Conduct have been expressly informed of its scope and content by its dissemination in informative memos on 28 December 2012 and 29 November 2012, and its publication on the Entity's intranet.

The Governing Board and the Ethics Committee, the Monitoring Body of the Entity's Code of Ethics and Professional Conduct, ensure that all actions are guided in this direction, censuring any non-compliance and adopting, where appropriate, the corrective measures that may be required in each case.

Furthermore, Caja Laboral also has an Internal Code of Conduct in the area of the securities market, 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 people, whether or not they are managers, whose work is directly or mainly related to the activities and services of Caja Laboral in the Securities Market field or who frequently or usually have access to relevant information about Caja Laboral.

1.2.3 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.

Caja Laboral has now established a complaints channel available to all partners, employees and directors in the different companies that make up the Group. The creation of this channel on 28 February 2012 was disseminated across the Entity via an informative memo and its publication on the intranet. Its operating framework forms part of the Code of Ethics and Professional Conduct.

This channel is used to inform the Monitoring Body of any possible breaches of the Code of Ethics and Professional Conduct, of activity and behaviour that contravenes current legislation and internal regulations, and any potentially significant irregularities, especially financial and accounting irregularities.

The Code of Ethics and Professional Conduct describes the scope, content and use of the channel, guaranteeing the confidentiality of any complaints, which should be sent by email or internal mail to the Director of the Internal Audit Department, who forms part of the Monitoring Body, for processing and treatment.

In addition, the Audit Committee is regularly informed about the work carried out by the Internal Audit Department, including that related to any irregular actions within the organisation.

1.2.4. 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, internal control and risk management.

The Entity has a Training Plan that 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 Entity's Training section manages the training activities and programmes, keeps updated records on all the courses held and their characteristics: whether they are external or internal courses, the number of attendees, those attending, their duration in hours, the results of the training assessment, etc.

Below are some of the courses that were given in the FIICS area during 2012:

AREA/DEPARTMENT	COURSE	No. EMPLOYEES	HOURS OF TRAINING	TYPE OF TRAINING
Control Area	Traceability Transaction: Award	15	3	External
Risk Area	RE-COBRA+ Project	18	14	External
Investments Area	Counterparty and market risk	1	8	External
Investments Area	Liquidity management New regulatory aspects	1	8	External
Control Area	Counterparty risk	1	16	External
Control Area	ALM in Banking. Practical Focus	1	12	External
Audit Department	Expert Programme on Internal Audits: Mod.I-Concept, procedures, techniques and reports	9	16	External
Audit Department	Expert Programme on Internal Audits: Mod.VI-Distance audits, branch audits, audits and fraud, audits and money-laundering	14	24	External
Audit Department	Risks inherent to lending products	15	16	External
Audit Department	Course on company evaluation	1	8	External
Audit Department	Expert internal auditing of credit institutions	1	36	External
Audit Department	Financial assessment level 2 EFP	1	110	External

2. Financial information risk assessment

2.1. The main characteristics of the risk identification process, including those of error and fraud, in terms of:

- **If the process exists and is documented.**
- **If the process covers all financial information aims (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), if it is updated and if so, how often.**
- **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 entities, etc. or special purpose vehicles.**
- **If the process takes account of the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.**
- **What governing body at the Entity supervises the process.**

The Entity knows in detail which areas have an impact on the financial information and the risks of error that exist in them and that have an impact on the financial information.

The material areas or departments have identified the possible risks of error in the financial information that could have a significant impact on the Entity. The risks of error or omission in the preparation of the financial information are taken into account in the definition and development of the operating procedures of each of the critical areas with an impact on the financial information.

The current risk management model at the Entity, for both internal governance and the methodology applied, is adapted to regulatory developments that have been introduced from an FIICS point of view, as well as best practice that is commonly in use in the industry.

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 corresponds to the internal audit department.

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.

During the course of 2013, the Entity is going to develop and formalise a specific procedure for identifying the material areas and relevant processes that can respond to best practice and that cover all of the financial information aims, including all error risks and fraud that may significantly affect the Group's financial information.

3. Control activities

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.

Regarding activities and controls directly related to transactions that could materially affect the financial statements, the Entity has procedure manuals specific to the areas or departments and to the financial information control areas. These manuals are drafted by the areas and approved by the Governing Board.

The Entity has the controls in place that are considered necessary for obtaining an effective control system that checks the correct preparation and reliability of the financial information.

The Caja Laboral individual closing 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 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.

Closure of the subsidiaries is carried out by their corresponding entity, except in the case of some real estate development 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.

In relation to the review of the relevant opinions and estimates, the Entity informs in its annual accounts about the most relevant areas in which there are opinion or estimate parameters, and the key assumptions used by the Entity with respect to them. In this respect, the main estimates made refer to losses due to impairment of specific financial assets, actuarial calculations related to liabilities and pension commitments, useful life of tangible and intangible assets, valuation of goodwill, reasonable value of unlisted financial assets and reasonable value of real estate assets.

It should be pointed out that the Entity has established a plan of action for 2013 to carry out formal and standardised documentation (narratives, risk matrices and proof), to cover financial declarations made by the FIICS on those areas and processes that are identified as relevant within the Group, including accounts closing processes, consolidation and judgements, estimates and relevant projections, among others.

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.

The Management of Caja Laboral recognises information and the assets that contain it as the strategic assets for the business and it is therefore determined to reach the required security levels that guarantee its protection, in terms of availability, confidentiality, integrity, authentication and traceability.

As part of this commitment, Caja Laboral has an Information Security Policy, which was approved on 20 December 2011 by the IT Security Committee and applies to all areas that make up the Entity. Its purpose is to manage the risks that affect the information and the systems that contain it and to maintain them at manageable levels. The purpose is to preserve the confidentiality, integrity, availability, authenticity and traceability of information

Information management is backed by appropriate regulations and procedures to achieve suitable security. The Security Policy is a high level regulation in terms of information security, and all Caja Laboral personal must comply with it. Its content expressly defines, among other aspects, the following points:

- Asset management
- Fiscal and environmental security
- Communication and operations management (security copies)
- Access Control
- Acquisition, development and maintenance of information systems
- Continuity management at the Entity

It also establishes that the Entity will guarantee compliance with the requirements set forth by the Personal Data Protection Act (LOPD) and the measures identified in the Royal Decree that enacts it. Specifically, Appendix 6 of the LOPD Security Document defines and documents the duties and obligations of users with access to personal data and information systems.

The Security Policy applies to all stages of the life cycle, both of the information and of the processing systems.

Instruction IMA 54.01-01 of the SGMA defines the security measures established to safeguard information in the Fujitsu environment and the various servers in the 'open environment' (SQL, TD, SAP, Medtra, etc.).

The Entity also depends on the IT Risks and Procedures Audit Group, whose main function is to review the effectiveness of information controls, verifying that suitable levels of integrity, confidentiality, availability and regulatory compliance are achieved. In January 2012 a Perimeter Security audit was carried out by an external expert, and in November 2012 an internal audit was carried out in compliance with the LOPD and Regulations of the LOPD.

In turn, Annex 12 of security document "Backup and Recovery Copies" describes Caja Laboral activity with regard to backup and recovery procedures for data stored in these systems.

Finally, on 29 March 2012, the Entity activated the Contingency Plan, which was developed with "total satisfaction" according to the Minutes of the Security Committee in January 2012.

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 regularly reviews the activities carried out by third parties that are relevant to the process of preparing the financial information or that could indirectly affect its reliability. The Entity recurrently uses reports from independent experts on assessments of operations that could potentially materially affect the financial statements.

In 2012, the main activities carried out by third parties related to assessment and calculations by independent experts were related to:

i) The fair value of the credit portfolio and repossessed property received from IpaKutxa.
ii) Valuations of property in use by IparKutxa as a result of the merger with Caja Laboral.
iii) In turn, valuations of repossessed properties and properties used as a guarantee for credit portfolio operations at the Entity have been requested, as stated in Bank of Spain Circular 4/2004 and subsequent amendments.

The Entity has controls in place at all levels to mitigate the risks associated with these activities, which are executed by the parties responsible for the operation and are aimed at checking their competence, training, accreditation or independence, as well as the validity of the data and methods used and the reasonable nature of the hypotheses used.

With regard to the valuation of repossessed property, the Technical Commission for Valuation Activity, which reports to the Governing Board, includes amongst its duties and responsibilities the task of verifying compliance with the independence requirements established for mechanisms used by the contracted valuation companies, preventing conflicts of interest, and reviewing and approving significant valuations. It also has the support of the Internal Audit Department to confirm the effectiveness of the established procedures.

To carry out its duties, the members of the Technical Commission have been appointed taking into account their knowledge and experience in financial matters and mortgage market regulation. Among their limitations is the inability to participate in the activity they control.

4. Information and communication

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 at the Entity, including 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 Entity's specific operations, 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 for each subsidiary company of the Economic Group and the Inspection Department is responsible for the companies in this Group following the accounting registration guidelines and the accounting policies that are set by the Entity. 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. Furthermore, this department is responsible for sending any amendments or updates to both the Entity's business units and the subsidiaries.

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.

The process of consolidating and preparing financial information is carried out centrally at 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 accounting 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 carries out a series of controls to ensure the reliability and correct processing of the financial information received from the subsidiaries and the business units, including checks on the correct implementation of the various consolidation entries, variations in the results obtained as regards the budget and the specific Bank of Spain statement checks, where the various balance sheet and profit and loss account entries are interlinked.

5. Supervising the system's operation

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 is 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 Entity has an action plan containing details of any corrective measures and whether their impact on the financial information has been considered.

Among the competences allocated to the Audit Committee is that of being aware of the company's financial information process and internal control systems, as well as that of supervising the Internal Audit service, approving its action plans and reviewing to what extent the recommendations issued are implemented. The Audit Committee controls the development of these activities in the Internal Audit Department.

To carry out its duties, the Internal Audit Department is organised 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 applicable internal and external regulations, and protection of the Entity's assets.

Furthermore, the Entity's Code of Ethics and Professional Conduct establishes that the Governing 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 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.

5.2. Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in Spain's Technical Auditing Standards), the internal audit team and other aspects can report to Senior Management and the Audit Committee or the entity's directors during the annual account review processes or any others assigned to them. Furthermore, whether there is an action plan to correct or mitigate any weaknesses observed.

The Audit Committee meets with the External Auditor twice each year:

- The first meeting is called at the end of the preliminary work of the interim visit that forms part of the annual audit, where the external auditor presents the preliminary conclusions 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**.**

In addition, 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 his work and also to discuss any weaknesses detected.

The Internal Control memorandum of suggestions and recommendations issued by the External Auditor is presented to the Audit Committee and subsequently sent for approval 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.

Finally, depending on the scale 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 results from work carried out by the Internal Audit Department, the reports it issues are submitted by the Director of the Department to the Board of Directors or General Management, and monitoring is carried out to assess the degree to which the recommendations proposed in the reports are implemented.

At least twice each year, the Audit Committee meets at the request of the Internal Audit Department Management to receive information about its main projects, thereby complying with one of the responsibilities assigned to the Committee.

6. Other relevant information

On 2 November 2012, the process of merging Caja Laboral Popular, Cooperativa de Crédito and Ipar Kutxa Rural, Sociedad Cooperativa de Crédito was successfully concluded via registration in the Companies Register of Gipuzkoa of the public deed of merger between the two entities, leading to the creation of a new credit cooperative called Caja Laboral Popular, Cooperativa de Crédito.

The merger process has significant implications for both entities at an organisational, operational and technological level, among others. Therefore, the Entity's Senior Management have decided to postpone the design and implementation of the FIICS to the 2013 financial year.

7 External auditor's report

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.

Certain aspects of the FIICS are currently in the process of being formalised in an implementation plan, which is expected to be completed during the 2013 financial year. For this reason, the FIICS has not been submitted for review by the external auditor.

The Entity will assess the suitability of submitting the FIICS information issued to the markets for review by the external auditor in subsequent years.

CAJA LABORAL
EUSKADIKO KUTXA

CAJA LABORAL POPULAR COOP. DE CRÉDITO

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND DIRECTORS' REPORT FOR 2012

The Members of the Parent Entity's Governing Council 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 a accurate analysis of the development and results obtained by the Group during the year ended 31 December 2012.

As a result, the members of the Governing Council of Caja Laboral Popular Coop. de Crédito – Lan Kide Aurrezkia (Parent Entity) hereby prepare the Consolidated Directors' Report and consolidated financial statements on 26 March 2013, 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 2012. 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.

Mr. Txomin García Hernández (Chairman)	Mrs. María Belén Cortabarría Acha (Vice-Chairman)	Mr. Iñaki Josu Goñi Gabilondo (Secretary)
Mr. Francisco Javier Gorroñogoitia Iturbe (Member)	Mrs. Carmen Amaya Ceciaga Ezcurra (Member)	Mr. Javier Oleaga Mendiarach (Member)
Mr. José María Balzategui Juldain (Member)	Mrs. María Carmen Urrutia Uribechebarria (Member)	Mrs. Ana María Beristain Eguiguren (Member)
Mr. José Luis García García (Member)	Mr. José Javier Saenz de Buruaga Gabilondo (Member)	Mr. Luis Mª Ugarte Azpiri (Member)
Mr. Roberto Ruiz de Infante Aguirre (Member)	Mr. José Linaza Jauregui (Member)	Mr. Pablo-Jesús Larrabide Bilbao (Member)