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

Audit report,
Consolidated annual accounts at 31 December 2015
and consolidated Directors' Report for 2015

(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)

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the members of Caja Laboral Popular Coop. de Crédito

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Caja Laboral Popular Coop. de Crédito and its subsidiaries, which comprise the balance sheet as at December 31, 2015, and the consolidated income statement, the consolidated statement of recognized income and expense, the consolidated statement of total changes in equity, the consolidated cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Entity´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Caja Laboral Popular Coop. de Crédito and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2015 contains the explanations which the Parent Entity´s Directors consider appropriate regarding Caja Laboral Popular Coop. de Crédito and its subsidiaries situation, the development of their 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 Directors' Report is in agreement with that of the consolidated annual accounts for 2015.Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Caja Laboral Popular Coop. de Crédito and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Guillermo Cavia
Audit Partner
08 March 2016

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2015
(Expressed in €' 000)

ASSETS	Note	2015	2014 (*)
Cash on hand and on deposit at central banks	22	**183,177**	**143,456**
Trading portfolio	23	**258,966**	**288,223**
Debt securities		255,143	278,881
Equity instruments		776	1,062
Derivatives held for trading		3,047	8,280
Memorandum-item: Loaned or pledged		*82,449*	*15,537*
Other financial assets at fair value through profit and loss	24	**558**	**2,128**
Debt securities		-	1,225
Equity instruments		558	903
Available-for-sale financial assets	25	**4,616,341**	**6,391,699**
Debt securities		4,228,921	6,000,628
Equity instruments		387,420	391,071
Memorandum-item: Loaned or pledged		*1,250,056*	*407,102*
Credit investments	26	**13,967,063**	**14,674,415**
Deposits at credit institutions		196,117	216,396
Customer loans		13,719,411	14,406,971
Debt securities		51,535	51,048
Memorandum-item: Loaned or pledged		-	-
Held to maturity investments	27	**1,142,714**	**1,719,014**
Memorandum-item: Loaned or pledged		*139,322*	-
Derivatives held for hedging	28	**232,753**	**303,066**
Non-current assets for sale	29	**354,765**	**338,102**
Property, plant and equipment		354,765	338,102
Shareholdings	30	**3,091**	**3,284**
Associates		3,091	3,284
Jointly-controlled entities		-	-
Assets held for reinsurance	31	**25,198**	**25,153**
Property, plant and equipment	32	**379,671**	**405,233**
Property, plant and equipment		317,842	336,652
For own use		306,625	325,042
Assigned under operating lease		10,426	10,789
Associated with Community Projects		791	821
Investment properties		61,829	68,581
Memorandum-item: Acquired under finance lease		-	-
Intangible assets	33	**33,491**	**33,528**
Goodwill		33,425	33,425
Other intangible assets		66	103
Tax assets	34	**316,095**	**322,830**
Current		14,573	15,758
Deferred		301,522	307,072
Other assets	35	**71,092**	**74,544**
Inventories		3,441	2,391
Others		67,651	72,153
TOTAL ASSETS		**21,584,975**	**24,724,675**

(*) Presented for comparative purposes only.

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2015
(Expressed in €' 000)

LIABILITIES	Note	2015	2014 (*)
Trading portfolio	**23**	**3,430**	**10,230**
Derivatives held for trading		3,430	10,230
Financial liabilities at amortised cost	**36**	**18,872,284**	**21,992,215**
Deposits from central banks		-	3,146,846
Credit institution deposits		262,856	362,369
Customer funds		18,282,763	17,956,928
Marketable debt securities		166,333	345,534
Other financial liabilities		160,332	180,538
Derivatives held for hedging	**28**	**114,798**	**133,082**
Insurance contract liabilities	**37**	**533,304**	**521,937**
Provisions	**38**	**202,656**	**184,583**
Retirement benefit obligations		25,879	35,109
Provisions for taxes and other contingencies		-	162
Provisions for contingent risks and commitments		31,187	31,840
Other provisions		145,590	117,472
Tax liabilities	**34**	**130,491**	**144,292**
Current		5,228	7,245
Deferred		125,263	137,047
Community projects fund	**39**	**11,765**	**11,430**
Other liabilities	**35**	**78,164**	**109,883**
Capital repayable on demand		**-**	**-**
TOTAL LIABILITIES		**19,946,892**	**23,107,652**
EQUITY			
Equity	**40**	**1,502,793**	**1,450,712**
Capital		708,403	695,962
Documented		708,403	695,962
Reserves		722,703	685,013
Accumulated (losses) reserves		722,817	685,112
Reserves (losses) for companies measured under the equity method		(114)	(99)
Less: Treasury shares		(1,359)	(1,322)
Result attributed to the Parent Entity		102,787	102,117
Less: Dividends and remuneration		(29,741)	(31,058)
Measurement adjustments	**41**	**135,290**	**166,311**
Available-for-sale financial assets		135,290	166,311
Cash flow hedges		-	-
Entities measured under the equity method		-	-
Minority interests		**-**	**-**
Measurement adjustments		-	-
Remainder		-	-
TOTAL EQUITY		**1,638,083**	**1,617,023**
TOTAL LIABILITIES AND EQUITY		**21,584,975**	**24,724,675**
MEMORANDUM-ITEM			
Contingent risks	**44**	**257,555**	**286,135**
Contingent commitments	**45**	**985,090**	**876,665**

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Expressed in €' 000)

	Note	2015	2014 (*)
Interest and similar revenue	46	395,167	532,451
Interest and similar charges	47	86,270	164,159
Compensation for capital repayable on demand		-	-
INTEREST MARGIN		308,897	368,292
Return on equity instruments	48	8,536	5,773
Results in entities carried under the equity method	49	83	23
Fees collected	50	107,382	115,494
Fees paid	51	10,825	12,490
Results of financial operations (net)	52	15,363	16,320
Trading portfolio		739	2,496
Other financial instruments at fair value through profit and loss		2,886	2,993
Financial instruments not stated at fair value with changes in income statement		12,541	9,860
Other		(803)	971
Exchange differences (net)	53	993	987
Other operating revenue	54	204,895	208,537
Revenues from insurance and reinsurance policies issued		186,600	188,720
Sales and revenues from non-financial services rendered		6,140	8,332
Other operating revenues		12,155	11,485
Other operating charges	55	171,427	185,134
Expenses for insurance and reinsurance policies		140,695	147,379
Other operating expenses		30,732	37,755
Changes in inventories		-	-
GROSS MARGIN		463,897	517,802
Administrative expenses	56	241,424	253,484
Staff costs		142,523	149,032
Other general administrative expenses		98,901	104,452
Amortization	57	19,996	20,812
Provisions (net)	58	32,256	80,648
Financial asset impairment losses (net)	59	39,509	29,297
Credits, loans and discounts		2,380	31,117
Other financial instruments not stated at fair value with changes in income statement		37,129	(1,820)
RESULTS FROM OPERATIONS		130,712	133,561
Other asset impairment losses (net)	60	20,023	1,045
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	61	(586)	4,590
Difference on business combinations	68	-	7,269
Gain/(loss) on non-current assets held for sale not classified as discontinued operations	62	9,475	(20,393)
SURPLUS BEFORE TAXES		119,578	123,982
Corporate income tax	42	9,253	14,693
Mandatory appropriation to community projects and social funds	63	7,538	7,172
RESULTS FROM CONTINUING OPERATIONS		102,787	102,117
Gain/ loss on discontinued operations (net)		-	-
CONSOLIDATED SURPLUS FOR THE YEAR		102,787	102,117
Results attributable to minority shareholders		-	-
Result attributed to the Parent Entity	40	102,787	102,117

(*) Presented for comparative purposes only.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF RECOGNISED OF INCOME AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in €' 000)

	2015	2014 (*)
CONSOLIDATED SURPLUS FOR THE YEAR	**102,787**	**102,117**
OTHER RECOGNIZED INCOME AND EXPENSE	**(31,021)**	**40,068**
Items that will not be reclassified to the income statement	**-**	**-**
Actuarial losses and gains on defined benefit pension plans	-	-
Non-current assets for sale	-	-
Entities measured under the participation method	-	-
Income tax relating to items that will not be reclassified to the income statement	-	-
Items that could be reclassified to the income statement	**(31,021)**	**40,068**
Available-for-sale financial assets	(43,085)	55,703
Measurement (losses) gains	(67,673)	67,382
Amounts transferes to the income statement	24,588	(11,679)
Cash flow hedges	-	(53)
Measurement (losses) gains	-	(53)
Entities measured under the equity method	-	-
Measurement (losses) gains	-	-
Corporate income tax relating to items that could be reclassified to the income statement	12,064	(15,582)
TOTAL RECOGNIZED INCOME AND EXPENSE	**71,766**	**142,185**
Attributed to the Parent Entity	**71,766**	**142,185**
Attributed to minority shareholdings	**-**	**-**

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015
(Expressed in €' 000)

At 31 December 2015

		Reserves									
	Capital	Accumulated reserves (losses)	Reserve (losses) for companies measured 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 interests	Total equity
Closing balance at 31 December 2014	**695,962**	**685,112**	**(99)**	**(1,322)**	**102,117**	**(31,058)**	**1,450,712**	**166,311**	**1,617,023**	**-**	**1,617,023**
Adjustments due to changes in accounting standards	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance (*)	**695,962**	**685,112**	**(99)**	**(1,322)**	**102,117**	**(31,058)**	**1,450,712**	**166,311**	**1,617,023**	**-**	**1,617,023**
Total recognized income and expenses	**-**	**-**	**-**	**-**	**102,787**	**-**	**102,787**	**(31,021)**	**71,766**	**-**	**71,766**
Other changes in equity											
- Share capital increases	22,200	78	-	-	-	-	22,278	-	22,278	-	22,278
- Share capital decreases	(9,759)	-	-	-	-	-	(9,759)	-	(9,759)	-	(9,759)
- Shareholder remuneration	-	-	-	-	(17,931)	(29,741)	(47,672)	-	(47,672)	-	(47,672)
- Transactions involving treasury shares (net)	-	-	-	(37)	-	-	(37)	-	(37)	-	(37)
- Transfers among equity items	-	42,384	(15)	-	(73,427)	31,058	-	-	-	-	-
- Increase (decrease) in equity in connection with business combinations	-	-	-	-	-	-	-	-	-	-	-
- Discretionary appropriation to community projects and social funds	-	-	-	-	(10,759)	-	(10,759)	-	(10,759)	-	(10,759)
- Rest of equity increases (decreases)	-	(4,757)	-	-	-	-	(4,757)	-	(4,757)	-	(4,757)
Total other changes in equity	**12,441**	**37,705**	**(15)**	**(37)**	**(102,117)**	**1,317**	**(50,706)**	**-**	**(50,706)**	**-**	**(50,706)**
Closing balance at 31 December 2016	**708,403**	**722,817**	**(114)**	**(1,359)**	**102,787**	**(29,741)**	**1,502,793**	**135,290**	**1,638,083**	**-**	**1,638,083**

(*) Presented for comparative purposes only.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015
(Expressed in €' 000)

At 31 December 2014 (*)

	Capital	Reserves: Accumulated reserves (losses)	Reserves: Reserve (losses) for companies measured 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 interests	Total equity
Closing balance at 31 December 2013	**696,703**	**688,076**	**(8,265)**	**(1,286)**	**97,640**	**(30,491)**	**1,442,377**	**126,243**	**1,568,620**	**-**	**1,568,620**
Adjustments due to changes in accounting standards	-	(19,564)	-	-	(17,853)	-	**(37,417)**	-	(37,417)	-	(37,417)
Adjustments due to errors	-	-	-	-	-	-	**-**	-	-	-	-
Adjusted opening balance (*)	**696,703**	**668,512**	**(8,265)**	**(1,286)**	**79,787**	**(30,491)**	**1,404,960**	**126,243**	**1,531,203**	**-**	**1,531,203**
Total recognized income and expenses	**-**	**-**	**-**	**-**	**102,117**	**-**	**102,117**	**40,068**	**142,185**	**-**	**142,185**
Other changes in equity											
- Share capital increases	20,388	62	-	-	-	-	20,450	-	20,450	-	20,450
- Share capital decreases	(21,129)	-	-	-	-	-	(21,129)	-	(21,129)	-	(21,129)
- Shareholder remuneration	-	-	-	-	(16,638)	(31,058)	(47,696)	-	(47,696)	-	(47,696)
- Transactions involving treasury shares (net)	-	-	-	(36)	-	-	(36)	-	(36)	-	(36)
- Transfers among equity items	-	14,511	8,164	-	(53,166)	30,491	-	-	-	-	-
- Increase (decrease) in equity in connection with business combinations	-	-	-	-	-	-	-	-	-	-	-
- Discretionary appropriation to community projects and social funds	-	-	-	-	(9,983)	-	(9,983)	-	(9,983)	-	(9,983)
- Rest of equity increases (decreases)	-	2,027	2	-	-	-	2,029	-	2,029	-	2,029
Total other changes in equity	**(741)**	**16,600**	**8,166**	**(36)**	**(79,787)**	**(567)**	**(56,365)**	**-**	**(56,365)**	**-**	**(56,365)**
Closing balance at 31 December 2014	**695,962**	**685,112**	**(99)**	**(1,322)**	**102,117**	**(31,058)**	**1,450,712**	**166,311**	**1,617,023**	**-**	**1,617,023**

(*) The balances figuring in the consolidated annual accounts for 2013 have been restated in order to present them in accordance with the indications contained in Note 3.a) to the present consolidated annual accounts.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Expressed in €' 000)

	Note	2015	2014 (*)
CASH FLOWS FROM OPERATING ACTIVITIES		**(529,636)**	**(967,915)**
Consolidated surplus for the year		**102,787**	**102,117**
Adjustments made to obtain cash flows from operating activities		**134,388**	**176,066**
Amortization	**57**	19,996	20,812
Other adjustments		114,392	155,254
Net increase/ decrease in operating assets		**2,448,728**	**(1,128,190)**
Trading portfolio		29,257	(101,291)
Other financial assets at fair value through profit and loss		1,570	3,054
Available-for-sale financial assets		1,695,144	(2,425,419)
Credits, loans and discounts		636,728	1,377,190
Other operating assets		86,029	18,276
Net increase/ decrease in operating liabilities		**(3,212,498)**	**(116,197)**
Trading portfolio		(6,800)	2,158
Financial liabilities at amortized cost		(3,119,931)	(159,660)
Other operating liabilities		(85,767)	41,305
Corporate income tax collection/(paid)		**(3,041)**	**(1,711)**
CASH FLOWS FROM INVESTING ACTIVITIES		**615,306**	**1,035,849**
Payments		**(20,854)**	**(33,291)**
Property, plant and equipment	**32**	(19,538)	(18,119)
Intangible assets		-	-
Shareholdings	**30**	-	-
Non-current assets and associated liabilities available-for-sale		-	-
Held to maturity investments		(1,316)	(15,172)
Collections		**636,160**	**1,069,140**
Property, plant and equipment		5,581	11,004
Intangible assets		37	468
Shareholdings	**30**	276	-
Non-current assets and associated liabilities available-for-sale		59,963	71,701
Held-to-maturity investment portfolio		570,303	985,967
Cash and cash equivalents acquired in business combinations		**-**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES		**(45,949)**	**(58,448)**
Payments		**(50,296)**	**(62,260)**
Dividends	**40**	(29,741)	(31,058)
Amortization of treasury shares	**40**	(9,759)	(21,183)
Purchase of treasury shares	**40**	(37)	(36)
Other payments related to financing activities	**4**	(10,759)	(9,983)

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (Expressed in €' 000)

	Note	2015	2014 (*)
Collections		**4,347**	**3,812**
Issue of treasury shares	**40**	4,347	3,812
Disposal of own equity instruments		-	-
EFFECT OF EXCHANGE RATE FLUCTUATIONS		**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**39,721**	**9,486**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**143,456**	**133,970**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**183,177**	**143,456**
MEMORANDUM-ITEM			
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Cash on hand		88,463	78,688
Cash equivalent balances at central banks		94,714	64,768
Other financial assets		-	-
Less: Bank overprojects repayable on demand		-	-
Total cash and cash equivalents at end of the year	**22**	**183,177**	**143,456**

(*) Presented for comparative purposes only.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in €' 000)

1. Nature of the Entity

Caja Laboral Popular Coop. de Crédito (hereinafter, indistinctly, the Entity, the Parent Entity Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was incorporated on 2 November 2012 as a credit cooperative as a result of the merger, giving rise to a newly-created entity, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. 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 (Gipuzkoa); it will also have a secondary head office for business purposes in Bilbao.

On 31 October 2012, the merger deed was signed under which the new entity was formed and the corporate resolutions were notarised. As a result, the former Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito were merged by means of the formation of a new Credit Cooperative called "Caja Laboral Popular Coop. de Crédito", with the objects, domicile, capital and other attributes set forth in its Bylaws, governed by Law 13/1989 of 26 Many 1989 on Credit Cooperatives, among other applicable legislation.

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 Gipuzkoa 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 Gipuzkoa 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 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 (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 €76,851k (year-end 2014: €69,885k).

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 2015, the total assets and equity of the Parent Entity represented 97.05%,96.21% and 94.94%, respectively, of total Group assets and equity (year-end 2014: 97.45%, 95.91% and 93.63%, 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 2015 and 2014, prepared in accordance with the accountings standards and measurement criteria that apply to its individual annual accounts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in €' 000)

a) Individual balance sheets at 31 December 2015.

ASSETS	2015	2014 (*)
Cash on hand and on deposit at central banks	183,177	143,456
Trading portfolio	258,346	288,223
Available-for-sale financial assets	4,121,780	5,927,653
Credits, loans and discounts	13,913,947	14,613,017
Held to maturity investments	1,057,032	1,618,104
Derivatives held for hedging	232,753	303,066
Non-current assets for sale	346,824	341,465
Shareholdings	114,879	115,117
Property, plant and equipment	352,761	374,652
Intangible assets	-	-
Tax assets	306,405	312,291
Other assets	60,069	57,848
Total assets	20,947,973	24,094,892

LIABILITIES AND EQUITY	2015	2014 (*)
Trading portfolio	3,430	10,230
Financial liabilities at amortised cost	18,871,060	21,998,803
Derivatives held for hedging	114,798	133,082
Provisions	201,210	183,219
Tax liabilities	108,430	117,616
Community projects fund	11,765	11,430
Other liabilities	61,206	89,585
Capital repayable on demand	-	-
Total liabilities	19,371,899	22,543,965
Equity:	1,469,960	1,418,291
Capital	708,403	695,962
Reserves	693,717	657,776
Surplus for the year	97,581	95,611
Less: Dividends and remuneration	(29,741)	(31,058)
Measurement adjustments	106,114	132,636
Total equity	1,576,074	1,550,927
Total liabilities and equity	20,947,973	24,094,892

MEMORANDUM-ITEM		
Contingent risks	273,561	298,466
Contingent commitments	1,005,181	920,052

(*) Presented for comparative purposes only.

(Expressed in €' 000)

b) Individual income statements for the year ended 31 December 2015:

	2015	2014 (*)
Interest and similar revenue	371,201	508,160
Interest and similar charges	80,752	160,081
Return on equity instruments	-	-
Interest Margin	290,449	348,079
Return on equity instruments	22,780	16,575
Fees collected	95,174	102,758
Fees paid	4,870	6,606
Results of financial operations (net)	13,122	13,929
Exchange differences (net)	993	987
Other operating revenues	31,468	23,245
Other operating charges	27,071	32,221
Gross margin	422,045	466,746
Administration expenses	196,194	203,870
Amortization	19,192	19,407
Provisions (net)	32,256	80,653
Financial asset impairment losses (net)	39,111	30,327
Results from operations	135,292	132,489
Other asset impairment losses (net)	25,706	11,653
Gain/(loss) on the disposal of assets not classified as non-current assets held for sale	88	2,965
Gain/(loss) on non-current assets held for sale not classified as discontinued operations	588	(13,222)
Surplus before taxes	110,262	110,579
Corporate income tax	5,143	7,796
Mandatory appropriation to community projects and social funds	7,538	7,172
Results from continuing operations	97,581	95,611
Gain/ loss on discontinued operations (net)	-	-
Surplus for the year	97,581	95,611

(*) Presented for comparative purposes only.

(Expressed in €' 000)

c) Individual statement of recognised income and expenses relating to the year ended 31 December 2015:

	2015	2014 (*)
SURPLUS FOR THE YEAR	**97,581**	**95,611**
OTHER RECOGNIZED INCOME AND EXPENSE	**(26,522)**	**20,467**
Items that could be reclassified to the income statement	**(26,522)**	**20,467**
Available-for-sale financial assets	**(36,836)**	**28,479**
Measurement (losses)/gains	(60,415)	40,808
Amounts transferred to the income statement	23,579	(12,329)
Cash flow hedges	**-**	**(53)**
Measurement (losses)/gains	-	(53)
Corporate income tax	**10,314**	**(7,959)**
TOTAL RECOGNISED INCOME AND EXPENSE	**71,059**	**116,078**

(*) Presented for comparative purposes only.

d) Statements of total changes in equity for the year ended 31 December 2015:

Balance at 31 December 2015

	Capital and Reserves	Measurement adjustments	Total equity
Closing balance at 31 December 2014	**1,418,291**	**132,636**	**1,550,927**
Adjustments due to changes in accounting standards	-	-	-
Adjustments due to errors	-	-	-
Adjusted opening balance (*)	**1,418,291**	**132,636**	**1,550,927**
Total recognized income and expenses	**97,581**	**(26,522)**	**71,059**
Other changes in equity			
- Share capital increases	22,278	-	22,278
- Share capital decreases	(9,759)	-	(9,759)
- Shareholder remuneration	(47,672)	-	(47,672)
- Transfers among equity items	-	-	-
- Increase (decrease) in equity in connection with business combinations	-	-	-
- Discretionary appropriation to community projects and social funds	(10,759)	-	(10,759)
- Rest of equity increases (decreases)	-	-	-
Total other changes in equity	**(45,912)**	**-**	**(45,912)**
Closing balance at 31 December 2015	**1,469,960**	**106,114**	**1,576,074**

(Expressed in €' 000)

Balance at 31 December 2014

	Capital and Reserves	Measurement adjustments	Total equity
Closing balance at 31 December 2013	**1,381,092**	**112,169**	**1,493,261**
Adjustments due to changes in accounting standards	-	-	-
Adjustments due to errors	-	-	-
Adjusted opening balance (*)	**1,381,092**	**112,169**	**1,493,261**
Total recognized income and expenses	**95,611**	**20,467**	**116,078**
Other changes in equity			
- Share capital increases	20,450	-	20,450
- Share capital decreases	(21,129)	-	(21,129)
- Shareholder remuneration	(47,696)	-	(47,696)
- Transfers among equity items	-	-	-
- Increase (decrease) in equity in connection with business combinations	-	-	-
- Discretionary appropriation to community projects and social funds	(9,983)	-	(9,983)
- Rest of equity increases (decreases)	(54)	-	(54)
Total other changes in equity	**(58,412)**	**-**	**(58,412)**
Closing balance at 31 December 2014 (*)	**1,418,291**	**132,636**	**1,550,927**

(*) Se presenta única y exclusivamente, a efectos comparativos,

e) Individual cash flow statements for the year ended 31 December 2015:

	2015	2014 (*)
Net cash flows from operating activities:	(508,888)	(973,769)
Surplus for the year	97,581	95,611
Adjustments made to obtain cash flows from operating activities	146,799	188,061
Net increase/ decrease in operating assets	2,474,961	(1,131,951)
Net increase/ decrease in operating liabilities	(3,225,188)	(123,779)
Corporate income tax collection/(paid)	(3,041)	(1,711)
Net cash flows from investing activities:	594,521	1,041,667
Payments	(25,101)	(26,946)
Collections	619,622	1,068,613
Net cash flows from financing activities	(45,912)	(58,412)
Effect of exchange rate fluctuations	-	-
Net increase/ decrease in cash and cash equivalents	39,721	9,486
Cash and cash equivalents at beginning of the year	143,456	133,970
Cash and cash equivalents at end of the year	183,177	143,456

(*) Presented for comparative purposes only.

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 2015 (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 2015 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 2015.

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 2015 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 2015 were authorised for issue by the Directors of the Group's Parent Entity at a Governing Council meeting held on 29 february 2016. 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, jointly-controlled entities and associates are investee companies.

2.2.1)Dependent Entities

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

For control to exist, the following must be applicable:

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

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

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

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

Information related to holdings in Dependent Entities at 31 December 2015 and 2014 is shown in Appendix I.

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

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

- The consolidated results for the year, are presented under the heading "Results attributed to minority shareholders" in the consolidated income statement.

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

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

In addition to the Dependent Entities, the Parent 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.

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

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

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

2.2.3) Disposal of dependent entities

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

2.2.4) Joint ventures – Jointly-controlled entities

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

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

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

The required disclosures regarding the Group's investments in jointly-controlled entities at year-end 2015 and 2014 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 2015 and 2014 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 2015 and 2014 amount to €6,105k and €6,723k, respectively (Note 25).

The relevant information of holdings in Associated Entities at 31 December 2015 and 2014 are shown in Appendix I.

Because the accounting principles and norms and the valuation criteria applied in the preparation of the consolidated annual accounts of the Group for the years 2015 and 2014 may differ from those applied in some of the subsidiaries, jointly-controlled entities and associates, during the consolidation process any significant adjustments or reclassifications required were applied to homogenize the accounting principles and norms and the valuation criteria.

At 31 December 2015 and 2014, 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 2015 and 2014, 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.

2.2.6) Structured entities

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

At 31 December 2015 and 2014 the contractual agreements for financial support to consolidated structured entities pertain to the support mechanisms which are commonly used in the securitisation market. There are no significant financial support agreements other than those covered by the relevant contracts. Note 26 to the consolidated annual accounts provides information on the balances related to consolidated structured entities.

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

These entities and funds are self-sufficient as far as their activities are concerned and do not depend on a capital structure that could make them unable to carry on their activities without additional financial support. Fees accrued during the year for the services rendered to these entities and funds by Group (asset management services, portfolio deposits, etc.) are recorded under Fees received in the consolidated income statement (Note 50) together with fees generated by the depositing of portfolios owned by third parties.

2.2.7) Changes in the scope of consolidation

Changes in the scope of consolidation during 2015

During 2015, ISGA Inmuebles, S.A. carried out the merger by absorption of the Group's real-estate companies: Clarim Álava, S.L., Clarim Navarra, S.L. and Clarim Valladolid, S.L. It also absorbed, through the relevant mergers, six real-estate companies in which Fomenclar held an interest, which had already been absorbed through a merger by ISGA Inmuebles, S.A. in 2014. As a result of the merger, the Group no longer holds a direct interest in said companies.

Changes in the scope of consolidation during 2014

During 2014, ISGA Inmuebles, S.A. carried out a merger by absorption with Fomenclar, S.L. and 15 other real-estate companies in which it held an interest. Following the merger, the Group took control of these companies' assets and liabilities (Note 69).

2.3 Comparative information

The information drawn up for financial reporting purposes under IFRS-EU corresponds to the year ended 31 December 2015. Comparable figures are provided for 2014 in all instances.

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.q and 13.r).
- The fair value of certain unlisted assets (Note 13.e).
- The cost and anticipated development of provisions and contingent liabilities (Note 13.u).
- Assumptions used to calculate insurance liabilities (Note 13.t).
- The actuarial assumptions used to calculate post-employment benefit liabilities and commitments (Note 13.o)
- The assumptions used in the calculation of fair value of the assets acquired in the business combination between the real estate development companies belonging to Fomenclar, S.L. (Notes 13.aa) and 68).
- The assessment of the ability to utilise the tax credits recognised (Note 13.p).

Since these estimates have been made based on the best information available at 31 December 2015 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 2015 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) <u>Standards, amended standards and interpretations effective for annual periods beginning on or after 1 January 2015</u>

- <u>IFRIC 21 "Levies"</u>

  On 13 June 2014 the European Commission issued Regulation 634/2014, under which IFRIC 21 was adopted. This interpretation covers the accounting treatment of levies imposed by the public administrations, other than income taxes and fines and penalties imposed owing to non-compliance with legislation. The main issue raised in this respect is when the entity should recognise a liability owing to the obligation to pay a levy accounted for in accordance with IAS 37. It also addresses the accounting treatment of a liability for the payment of a levy with the payment date and amount are known with certainty.

  Under Article 2 of said Regulation, entities shall apply IFRIC 21 "Levies" from the date of their first financial year commencing as from 17 June 2014, at the latest. However, the Group decided to apply this interpretation for the first time in the annual accounts for 2014, since early adoption is permitted.

- Annual improvements to IFRS 2011 - 2013 cycle:

In December 2013 the IASB published the Annual Improvements to IFRS for the 2011-2013 cycle. The amendments incorporated into these Annual Improvements are generally applicable to years starting on or after 01 January 2015; early application is permitted. The main amendments incorporated relate to:

- IFRS 3 “Business combinations”: Exceptions to the scope for joint ventures.
- IFRS 13 "Fair value measurement”: Scope of the "portfolio exception" available in IFRS 13.
- IAS 40 “Investment properties”: Interrelation between IAS 40 and IFRS 3 when a property is classified as an investment property or owner occupied property.

The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

i) Standards, amendments and interpretations which have not yet come into effect but which may be adopted early in the years starting on or after 01 January 2015.

At the date these consolidated annual accounts, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations, application of which is mandatory from 2016 and which the Group has not decided to apply early.

- Annual improvements to IFRS 2010 - 2012 cycle:

In December 2013 the IASB published the Annual Improvements to IFRS for the 2010-2012 cycle. The amendments incorporated into these Annual Improvements are generally applicable to years starting on or after 01 February 2015; early application is permitted. The main amendments incorporated relate to:

- IFRS 2 “Share-based payments”: Definition of "vesting condition".
- IFRS 3 “Business combinations”: Accounting for contingent consideration in a business combination.
- IFRS 8, "Operating segments": Disclosure of aggregation of operating segments and reconciliation of total assets assigned to the segments reported and the entity's assets.
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets": Proportionate restatement of accumulated depreciation/amortization when the revaluation model is used.
- IAS 24 “Related-Party Disclosures”: Entities providing key management personnel services as related party.

The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- IAS 19 (Amendment) "Defined benefit plans": Employee contributions "

  IAS 19 (revised 2011) distinguishes between employee contributions related to the service provided and those not linked to the service. The current amendment further distinguishes between contributions linked to the service only in the year in which they arise and those linked to the service in more than one year. The amendment allows the contributions linked to the service that do not vary over the duration of the service to be deducted from the cost of benefits earned in the year in which the related service is provided. Contributions related to the service that vary according to the duration of the service must be apportioned over the duration of the service using the same allocation method that is applied to the related benefits. This amendment applies to the years starting on or after 1 February 2015 and is applied retrospectively. Early adoption is permitted.

  The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- IAS 16 (Amendment) and IAS 41 (Amendment) "Agriculture: bearer plants"

  Under this amendment, bearer plants must be accounted for in the same way as property, plant and equipment and differently from other biological assets. Accordingly, the amendments include these plants within the scope of IAS 16 rather than IAS 41. The products that grow on these plants will remain within the scope of IAS 41. These amendments apply for annual periods beginning on or after 1 January 2016, although early adoption is permitted. As a general rule, the amendments will apply retrospectively, although entities already reporting under IFRS and that measure their bearer plants at fair value less costs to sell can choose to use the fair value thereof as cost attributed to the beginning of the first year in which such changes are applied for the first time.

  The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- IFRS 11 (amendment) "Accounting for acquisitions of interests in joint ventures":

  Requires the application of accounting principles for business combinations to an investor that acquires an interest in a joint venture that constitutes a business. Specifically, it will have to measure the identifiable assets and liabilities at fair value; recognise costs related to the acquisition as an expense; recognise the deferred tax; and recognise the residual value as goodwill. All other accounting principles for business combinations apply, unless they conflict with IFRS 11. This amendment is applicable prospectively to years starting on or after 1 January 2016; early application is permitted.

  The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- IAS 16 (Amendment) and IAS 38 (Amendment) "Clarification of acceptable depreciation methods ":

  This amendment clarifies that it is not appropriate to use revenue-based methods to calculate the depreciation of an asset because the revenue generated by an activity that involves the use of an asset generally reflect factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that it is generally presumed that ordinary income is an inadequate basis for assessing the consumption of economic benefits embodied in an intangible asset. This amendment will be effective for financial years beginning on or after 1 January 2016, and will be applied prospectively. Earlier application of the standard is allowed.

  The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- Improvement project 2012 - 2014 cycle:

  The amendments affect IFRS 5, IFRS 7, IAS 19 and IAS 34 and will apply to annual periods commencing on or after 1 1 January 2016. The main amendments relate to:

  - IFRS 5 "Non-current assets held for sale and discontinued operations". Changes in disposal methods.

  - IFRS 7 "Financial instruments: Disclosures": Continued involvement in administration contracts.

  - IAS 19 "Employee benefits": Determination of the discount rate in post-employment remuneration commitments.

  - IAS 34 "Interim financial reporting": Information disclosed in another part of the interim financial information.

  The new amendments are not expected to have a significant effect on the Group's consolidated annual accounts.

- IAS 1 (Amendment) "Disclosure initiative":

  The amendments to IAS 1 encourage enterprises to apply professional judgment in determining what information to disclose in the financial statements. The amendments clarify that materiality applies to the financial statements as a whole and that the inclusion of immaterial information may hamper the usefulness of the financial information. In addition, the amendments clarify that entities should use professional judgment to determine where and in what order the information is to be presented in the financial statements.

These amendments to IAS 1 are mandatory for years beginning on and after 1 January 2016.

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

- IAS 27 (Amendment) "Equity method in separate financial statements"

  IAS 27 has been amended to re-establish the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The definition of separate financial statements has also been clarified. An entity that chooses to change to the equity method will apply the amendments for years commencing on or after 1 January 2016 in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". Early adoption is permitted.

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

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

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

- IFRS 14 "deferred regulatory accounts":

  This is an interim standard on the accounting treatment of certain balances arising in rate-regulated activities. It applies only to those entities adopting IFRS 1 for the first time, allowing them to continue to recognise the amounts related to tariff regulation in accordance with their accounting policies prior to the adoption of IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise these amounts, the standard requires that the effect of said rate regulation be disclosed separately. An entity that already presents its financial statements under IFRS cannot implement this standard. This standard is effective from 1 January 2016, although early adoption is permitted.

  The standard is not expected to have a significant effect on the Group's consolidated annual accounts.

- IFRS 15 "Revenue from contracts with customers"

  In May 2014, the IASB and the FASB jointly issued a converged standard regarding the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control over the good or service sold, i.e. when it has the capacity both to direct the use and to obtain benefits from the good or service. This standard includes new guidelines to determine whether to recognise revenue over time or at a particular time. IFRS 15 requires extensive information on both recognised revenue and revenue expected to be recognised in the future in relation to existing contracts. Quantitative and qualitative information is also required about the significant judgments made by management in determining recognised revenue, as well as any changes in these judgments. IFRS 15 will be effective for financial years starting on or after 01 January 2018; early application is permitted.

  The Group is analysing the impact that the standard may have on the Group's consolidated annual accounts should it be adopted by the European Union.

- IFRS 9 "Financial instruments"

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

IFRS 9 will be effective for financial years starting on or after 1 January 2018; early application is permitted. IFRS 9 is to be applied retroactively but will not require comparative figures to be restated. If an entity chooses to apply IFRS 9 early, it must implement all the requirements simultaneously. Entities applying the standard before 1 February 2015 still have the option to apply it in stages.

During 2015 the Group has studied this new standard and the implications it will have in 2018 for both the classification of portfolios and pricing models for financial instruments, particularly models for calculating financial asset impairment using forecast loss models.

In 2016, the Group will continue work on the definitions of accounting policies and the implementation of the standard that has implications with respect to the consolidated financial statements and operating arrangements (risk admission and monitoring, changes in systems, management metrics, etc.) and to presentation formats for the consolidated financial statements.

At the date of preparation of these consolidated financial statements no estimate is available of the quantitative impact that the entry into force of this standard will have at 1 January 2018. The Group expects to have an estimate of this impact during 2017, in relation to the presentation of the final figures at the date of first application of the standard and the relevant comparison with the previous year.

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

  These amendments clarify the accounting treatment of sales and contributions of assets between an investor and his associates and joint ventures which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business”. If the assets do not meet the definition for a business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to his associate or joint venture. Originally, these amendments to IFRS 10 and IAS 28 were prospective and applicable for years starting on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

  The Group is analysing the impact that the amendment may have on the Group's consolidated annual accounts should it be adopted by the European Union.

- IFRS 10 (Amendment), IFRS 12 (Amendment) and IAS 28 (Amendment) "Investment entities: applying the exception to consolidation "

  These amendments clarify three issues on the implementation of the requirement for investment entities to measure subsidiaries at fair value rather than consolidate them. The proposed amendments:

  • Confirm that the exception to presenting consolidated financial statements continues to apply to the subsidiaries of an investment entity that are themselves dominant entities;

  • Clarify when a dominant investment entity should consolidate a subsidiary that provides investment-related services rather than measure the subsidiary at fair value; and

  • Simplify the application of the equity method for an entity that is not itself an investment entity but which has an interest in an associate which is an investment entity.

  They will be effective for financial years starting on or after 1 January 2016; early application is permitted.

  The Group is analysing the impact that the amendment may have on the Group's consolidated annual accounts should it be adopted by the European Union.

- IFRS 16 "Leases"

  In January 2016, the IASB published a new standard on leases which supersedes IAS 17 "Leases", as a result of a joint project with the FASB. The IASB and FASB have reached the same conclusions in many areas related to lease recognition, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed not to incorporate substantial changes into the accounting treatment by the lessor, maintaining requirements that are similar to those of the former standards. There are still differences between the IASB and FASB regarding the recognition and disclosure of expenses related to leases in the income statement and in the cash flow statement.

  Under IFRS-IASB, IFRS 16 is mandatorily applicable as from 1 January 2019; enterprises can choose to apply IFRS 16 early, but only if IFRS 15 "Revenue from contracts with customers" is also applied. IFRS 16 has not yet been approved by the EU.

  The Group is analysing the impact that the standard may have on the Group's consolidated annual accounts should it be adopted by the European Union.

- IAS 12 (Amendment) "Recognition of deferred tax assets due to unrealised losses":

  This amendment clarifies how to account for deferred tax assets related to investments in debt instruments measured at fair value. Decreases in the carrying amount below cost of fixed interest debt instruments carried at fair value, where the tax base is maintained at cost, give rise to deductible temporary differences. The estimate of likely future tax benefits may include the recovery of some of a company's assets at higher than carrying value, if sufficient evidence to this effect is available. This may be the case, for example, when a company expects to maintain a fixed interest debt instrument in its portfolio and receive contractual cash flows.

  The amendment will be effective for financial years starting on or after 1 January 2017; early application is permitted. In general, it will be applied retrospectively. However, on the date of initial application of the amendment, the option exists of recording the change under equity for the comparative period against the opening balance of the reserve for retained earnings.

  The Group is analysing the impact that the amendment may have on the Group's consolidated annual accounts should it be adopted by the European Union.

- IAS 7 (Amendment) "Disclosure initiative - Amendments to IAS 7":

  This limited scope amendment includes a requirement for an additional disclosure in the financial statements that enables users of financial statements to evaluate changes in liabilities arising from financing activities. The following changes in such liabilities have to be disclosed: i) changes arising from financing cash flows; ii) changes arising from obtaining or losing control over subsidiaries or other businesses; iii) the effect of changes in exchange rates; iv) changes in fair value; and v) other changes.

  The amendment will be effective for financial years starting on or after 1 January 2017; early application is permitted. When a company applies the amendment for the first time, it will not be required to provide comparative information for prior periods.

  The Group is analysing the impact that the amendment may have on the Group's consolidated annual accounts should it be adopted by the European Union.

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.

(Expressed in €' 000)

In 2015 and 2014 there have been no significant error corrections relating to prior years, nor have there been any significant changes in accounting estimates that might affect those years or future years.

4. Application of the surplus for the year

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

- Distribution or reimbursement to members

- Appropriation to the Voluntary Reserve Fund

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

- A minimum of 50% to the Mandatory Reserve Fund.

- A maximum of 25% to cover development and inter-cooperative needs. In particular, a minimum of 10% will be appropriated to the Education and Development Fund and a maximum of 15% will be appropriated to the Inter-Coop Company Fund.

- The remainder will be made available to the General Assembly, which can decide to distribute it as follows: reimbursement to members or appropriation to the voluntary reserve or analogous funds.

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

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

The proposed distribution of the Parent Entity's surplus for 2015 which the governing body of the Parent Entity will submit for the approval of the General Assembly, and that approved for 2014, is as follows:

	2015	2014
Appropriation:		
- Gross interest, distributed against the appropriation of gross surplus for the year, paid on share capital contributions	29,741	31,058
Share capital		
- Mandatory Reserve Fund	37,689	35,863
- Education and Development Fund (*)	-	-
- Reimbursements to members	18,845	17,931
- Inter-Coop Company Fund	11,306	10,759
Result for the year	97,581	95,611

(*) The amount earmarked to the Education and Development Fund corresponds to the minimum mandatory sum of €7,538k in 2015 and €7,172k in 2014 (Note 63),

(Expressed in €' 000)

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 2015 and 2014, are set out below:

	2015	2014
Consolidated income statement:		
Contribution to gross margin from insurance operations	39,533	46,051
Administration expenses	23,054	26,051
Surplus for the year	12,224	15,270
Consolidated balance sheet:		
Total assets	735,096	720,367

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

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

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

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

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

It should also be noted that during 2015 new regulations have been published that complement the CRR Regulation on matters related to equity, liquidity, Pillar I risks and capital requirements.

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

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

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

In this respect, the Parent Entity received a notification from the Bank of Spain concerning the decision on the minimal prudential requirements applicable to the Parent Entity, whereby Laboral Kutxa must have a Common Equity Tier 1 (CET1) ratio of 10.25% measured on phased-in regulatory capital. This requirement includes the minimum required by Pilar 1 and the Pilar 2 requirement, including a capital conservation buffer.

Los objetivos estratégicos marcados por la Dirección del Grupo de la Entidad en relación 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.

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

(Expressed in €' 000)

The Group's capital management is in line, as concerns conceptual definitions, with the provisions of the new solvency regulations described above:

	2015	2014
Common Equity Tier 1 (CET1)		
Capital	708,397	657,624
Qualifying results	61,739	60,300
Reserves	723,234	689,734
Measurement adjustments	135,290	166,311
(-) Other deductions	(58,833)	(56,884)
(-) CET1 adjustments due to prudential filters	(91,950)	(146,977)
	1,477,877	1,370,108
Additional CET 1		
Qualifying equity instruments	-	-
	-	-
Common Equity Tier 2		
Equity instruments and subordinated loans	-	-
Complementary coverage for credit risks using standard method	78,002	76,864
Measurement adjustments	-	-
Education and Promotion Fund	-	-
(-) Transitional adjustments	-	-
	78,002	76,864
Other items and deductions	-	-
Total qualifying equity	1,555,879	1,446,972
Total minimum equity	781,824	808,040
Risk weighted assets	9,772,796	10,100,495

On 31 December 2015 and 2014, the following is the most significant data on the Group's minimum capital:

	2015	2014 (*)
CET 1 ratio	15.12%	13.56%
Tier 1 capital ratio	15.12%	13.56%
Total capital ratio	15.92%	14.33%

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

At the date of the present consolidated annual accounts, the Group complies with the above legislation.

(Expressed in €' 000)

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

a) Statutory remuneration

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

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

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

	Short-term remuneration	
	2015	**2014**
Chairman of the Governing Body	158	159
	158	159

b) Other Governing Body and Senior Management Remuneration

The amounts accruing due to the performance of their work positions to the five working partners belonging to the Parent Entity Governing Body at 31 December 2015 and 2014 are as follows:

	Short-term compensation and per diems	
	2015	**2014**
Members of the Governing Body	353	353
	353	353

Nine persons have been regarded as senior management personnel in the Parent Entity that belong to the Governing Body at 31 December 2015 (nine persons in 2014).

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

	Short-term compensation and per diems	
	2015	**2014**
Senior management	1,304	1,180
	1,304	1,180

(Expressed in €' 000)

In addition, the yield on capital (interest) and the remuneration received as a complementary distribution of the available surplus (cooperative returns) by the members of the Governing Body and of senior management of the Parent Entity in 2015 and 2014 totalled €264.7 thousand and €291.9 thousand, 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 2015 and 2014 in relation to the members of the Parent Entity's Governing Body and Senior Management:

	Interest revenue		Interest expense		Fee revenue	
	2015	2014	2015	2014	2015	2014
Directors and Senior Management	11	20	4	6	5	5

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 2015 and 2014.

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 2015 and 2014:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities – Fixed- term deposits and Demand deposits		Guarantees and commitments	
	2015	2014	2015	2014	2015	2014	2015	2014
Governing bodies and senior management	2,462	2,569	-	-	951	1,018	-	-

8. Agency contracts

In accordance with Article 22 of Royal Decree 1245/1995, Appendix II contains a list of the natural or legal persons to whom the Entity, at 31 December 2015 and 2014, had granted powers to deal with customers on a regular basis on behalf of the Parent Entity, for the purpose of arranging or formally agreeing business transactions of the type normally engaged in by a credit institution.

The list of these agents has been duly reported to the Bank of Spain at 31 December 2015.

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 2015 and 2014, the Group did not deem it necessary to record any provision for risks and charges of an environmental nature as, in the opinion of the Governing Body of the Parent Entity, there are no contingencies under this heading that are likely to have a significant effect on these annual accounts.

10. Deposit Guarantee Fund

10.1 National Resolution Fund

Directive 2014/59/EU was incorporated into Spanish legislation under Law 11/2015 and the enabling regulations thereof under Royal Decree 1012/2015. This law provides a new framework for the resolution of credit institutions and investment service companies, and is one of the laws that contribute to the creation of the Single Resolution Mechanism set up under EU Regulation 806/2014.

Said law regulates the creation of the National Resolution Fund, the financial resources of which must represent, before 31 December 2024, 1% of guaranteed deposits, by means of contributions by credit institutions and investment service companies established in Spain.

In 2015, the expense incurred for the contribution to this body amounted to €4,005 thousand (Note 55), which has been recorded in accordance with IFRIC 21 in a way similar to the expense recognised with respect to the Deposit Guarantee Fund.

10.2 Deposit Guarantee Fund

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

Royal Decree 2606/1996, amended by Royal Decree 1012/2015, establishes that the Management Committee of the Deposit Guarantee Fund shall determine the annual contributions of entities belonging to the Deposit Guarantee Fund for Credit Institutions. In 2015, the Management Committee determined a contribution of 0.16% of guaranteed deposits at 31 December 2015 and 0.2% of the guaranteed amount of securities and other financial instruments in custody at the same date.

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

On 30 July 2012 the Management Committee of the Deposit Guarantee Fund agreed to arrange an extraordinary contribution between member entities, payable by each entity through ten equal annual instalments. The extraordinary contribution to be made by the Parent Entity amounted €35,277 thousand (ten annual instalments of €3,522 thousand each). These contributions will be deducted from the ordinary annual contributions which, if appropriate, are paid by the Parent Entity and up to the amount of that ordinary contribution. At 31 December 2015, the Parent Entity has recorded this commitment in the amount of €24,660 thousand (€28,182 thousand at 31 December 2014) under the heading Other assets - other time apportionments on the assets side of the consolidated balance sheet (Note 35) and under Financial liabilities at amortised cost - Other financial liabilities (Note 36) on the liabilities side of the consolidated balance sheet.

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

This increase is implemented in two tranches:

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

b) A second tranche equivalent to the remaining three fifths, amounting to €24,455 thousand, to be paid as from 1 January 2004 in accordance with the payment schedule set by the Management Committee within a maximum term of seven years. As mentioned in IFRIC 21, this expense was considered to accrue on the date that said Royal Decree-Law came into force (22 March 2013), since this contribution does not depend on the Parent Entity's future activity and should be recognised as a liability in full on said date, irrespective of the date of actual disbursement. The Entity paid €3,494 thousand on 30 September 2014. On 17 December 2014, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, in accordance with the capacities conferred by the above-mentioned legislation, agreed that the remainder of said second tranche should be disbursed through two payments of equal amounts on 30 June 2015 and on 30 June 2016. On 30 June 2015 the Entity paid €10,480 thousand. As at 431 December 2015, €10,480 thousand is outstanding and will be paid on 30 June 2016.

In 2015, the expense incurred for all contributions to this Fund totalled €20,033 thousand (€28,592 thousand in 2014), which has been recognised under "Other operating charges" in the accompanying consolidated income statement (Note 55).

11. Audit fees

The cost for the Group of external auditing services and other audit-related services in 2015 amounted to €442 thousand and €39 thousand, respectively (€488 thousand and €105 thousand in 2014, respectively). In addition, the cost of other services provided to the Group in 2015 amounted to €162 thousand (€371 thousand in 2014).

12. Events after the balance sheet date

In the period 31 December 2015 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.q, 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

Clasification

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 Jointly-controlled 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.v.

x) Shareholdings which include equity instruments in associates, joint ventures and jointly-controlled 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.

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

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.

Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios are made solely in the following circumstances:

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 2015 and 2014 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 2015 and 2014 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 2015 or 2014.

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, do not comply with the requirements to be classed as Equity. They are measure as financial liabilities at amortised cost, unless the Group has designated them as financial liabilities at fair value because the applicable conditions are fulfilled.

The Parent Entity's bylaws provide that the reimbursement of contributions to members is subject to the approval of the governing body of the Parent Entity and to the condition that said reimbursement does not lead to insufficient coverage of minimum share capital, equity or solvency ratios.

Recognition and measurement

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

i) Financial liabilities included under the headings 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 2015 and 2014 consolidated financial statements (Notes 26 and 36).

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

h) 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, and based on the borrower's business sector.

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 considers that there is evidence of impairment of equity instruments classified as available-for-sale financial assets when continuous capital losses arise over an uninterrupted period of 18 months and reach, at the time of the observation, a percentage higher than 40%.

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 2015 and 2014:

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollars	60,917	26,101	63,558	20,445
Pounds sterling	11,805	1,108	11,850	2,216
Japanese yen	2,598	202	426	284
Swiss franc	3,062	198	2,649	141
Other	915	538	609	284
	79,297	28,147	79,092	23,370

The equivalent value in €'000 of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2015 and 2014 is as follows:

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash on hand and on deposit at central banks	1,567	-	914	-
Available- for- sale financial assets	54,497	-	56,158	-
Credits, loans and discounts	23,233	-	22,020	-
Financial liabilities at amortised cost	-	27,013	-	21,690
Hedging derivatives	-	-	-	-
Provision for contingent risks	-	1,134	-	1,680
	79,297	28,147	79,092	23,370

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 2014 and 2013 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 2015 amounted to €8,418k (€7,088k in 2014).

   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 2015 and 2014 to offset the direct costs of operations formalised are included under "Other operating income" in the consolidated income statement (Note 54).

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 50 and 51).

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

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

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

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

The classification of a financial guarantee contract as doubtful means that it will be reclassified to the heading "Provisions 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 50).

ñ) Investment funds and pension funds managed by the Group

The investment funds, pension funds and EPSV managed by the Group are not recorded on the consolidated balance sheet because their equity is owned by third parties (Note 65). Fees accrued in the year with respect to services rendered to these funds by the Group (capital management services, portfolio deposit, etc.) are recorded under Fees and commission income on the consolidated income statement (Note 50).

o) Staff costs and post-retirement remuneration

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

Post-employment remuneration is recognised as follows:

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

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

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

a) Current service costs, as staff costs.
b) Net interest on the provision, as interest and similar charges.
c) Net interest on assets, as interest and similar income.
d) Past service costs, as appropriations to provisions (net).

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.

The commitment accrued at years-end 2015 and 2014 is recognised in the item "Provisions - Pension funds and similar obligations" on the consolidated balance sheet at that date (Note 38).

Severance payments

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

p) Corporate income tax

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

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

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

q) 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.

r) Intangible assets

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

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

Goodwill 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, Jointly-controlled entities and Associates with respect to the relevant carrying values acquired, adjusted at the date of the first consolidation, are allocated as follows:

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

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

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

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

i) If the differences can be allocated to specific assets or liabilities of the 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.

s) Inventories

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

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

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

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

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

t) Insurance transactions

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

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

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

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

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

iv) Life insurance technical reserve:

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

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

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

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

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

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

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.

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

u) Provisions and contingent liabilities

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

i) A legal or contractual provision.

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

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

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

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

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

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

At 31 December 2015 and 2014 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.

v) 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.

w) Consolidated cash flow statement

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

i) Cash flows are inflows and outflows of cash and cash equivalents, understood as short-term investments which are highly liquid and involve a low risk of changes in value.

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

iii) 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.

x) 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 q) above.

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

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

i) 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.

ab) Goodwill

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

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

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

- Estimated macroeconomic variables and other financial values.

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

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

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

Goodwill impairment losses are not subsequently reversed.

(Expressed in €' 000)

14. Customer ombudsman

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

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

Concerning the activity of the Customer Care Service of the parent entity, Caja Laboral Gestión, S.G.I.I.C., S.A. and Caja Laboral Pensiones, S.A.G.F.P., 2,868 cases were brought in 2015 (3,784 in 2014), of which 2,753 were admitted 2,753 (3,779 in 2014), which were responded to. 115 cases were not admitted (5 in 2014) for the reasons set out in the Customer Care Service Regulations as grounds for rejecting complaints or claims.

	2015	2014
No. files opened		
- In writing: brochure / letter	1,818	2,145
- Internet	927	1,178
- By telephone	4	5
- Public bodies: OMIC / Regional Governments	119	456
	2,868	**3,784**
No. case files processed	**2,753**	**3,779**
Nature of the Files		
- Complaints	2,054	2,875
- Claims	434	553
- Queries	14	15
- Suggestions	7	4
- Letters of congratulations / gratitude	4	6
- Sundry petitions	355	331
	2,868	**3,784**

	2015	2014
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	86	270
- Amounts relating to cases for which the decision favoured the Customer	157	30
, Indemnities paid by the Entity	156	12
. Indemnities paid by third parties	-	-
. Amounts returned to customers, recovered by the Entity	1	18
	243	**300**

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

	2015	2014
Economic terms	17%	29%
Commissions and expenses	26%	23%
Missing or inaccurate information	20%	13%
Centralised customer services	10%	9%
Information missing or incorrect	2%	4%
Coverage of needs	3%	3%
Aspects of customer relations	2%	3%
Campaigns in general	2%	1%
Other:	18%	15%
- Swift and efficient service at branches	*3%*	*2%*
- Swift and efficient service at ATMs	*3%*	*3%*
- Miscellaneous	*11%*	*8%*
- Swift handling of formalities	*1%*	*2%*
	100%	100%

(Expressed in €' 000)

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

	2015	2014
= < 10 €	0.19%	0.24%
> 10 < = 60 €	1.55%	1.91%
> 60 < = 100 €	0.56%	0.56%
> 100 < = 250 €	2.37%	2.16%
> 250 < = 1.000 €	12.68%	7.96%
> 1.000 €	82.65%	87.17%

With respect to the customer service activity of Seguros Lagun Aro Vida, S,A., 22 complaints and claims were received in 2015 (2014: 30), of which 27 were classified as admissible (2014: 32). 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 2015 and 2014 were as follows:

	2015	2014
In favour of the customer	15	10
In favor of the Entity	12	20
Other	-	2
	27	32

The cost for the Entity of total complaints and claims favourable to customers has amounted to €22,258 in 2015 (€16,722 in 2014). Complaints and claims have on average been addressed within 9 days (10 days in 2014).

With respect to the Customer Ombudsman Department of Seguros Lagun Aro Vida, S.A., during the year 706 claims and complaints were made (693 in 2014), of which 688 were processed during 2015 (714 in 2014). Claims or complaints are due mainly to disagreements relating to indemnities, delays in the provision of services and insurance prices.

The results of the cases dealt with in 2015 and 2014 are as follows:

	2015	2014
In favour of the customer	267	308
In favour of the Entity	386	382
Other	35	24
	688	714

The cost for the Entity of total complaints and claims favourable to customers has amounted to €40,014 in 2015 (€34,945 in 2014). Complaints and claims have on average been addressed within 10 days (10 days in 2014).

(Expressed in €' 000)

Concerning the activity of the Customer Care Service of Caja Laboral Bancaseguros O.B.S.V., S.L.U., nine complaints and claims were received during the year (nine in 2014), and 12 cases were processed during 2015 (9 in 2014). The main reasons for the complaints or claims were disagreements over compensation, delays in the provision of services and the price of insurance.

The outcome of cases handled in 2015 and 2014 was as follows:

	2015	2014
In favour of the customer	7	7
In favour of the entity	5	2
Other	-	-
	12	9

Total complaints and claims favourable to customers entailed a cost of zero euros for the Group in 2015 and 2014. The average response time in 2015 was 10 days (8 days in 2014).

15. Credit risk

Credit risk is the risk of loss due to counterparty default on payments due to the Parent Entity, partially or wholly, or outside the agreed deadlines. From management viewpoint, Laboral Kutxa distinguishes between credit risk derived from the treasury and capital markets activity (financial institutions and private fixed income), and credit risk relating to the public authorities, individuals and companies derived from traditional investment activity.

In relation to the latter, the Governing Body of Laboral Kutxa has delegated a level of risk allocation to General Management. General Management, in turn, has delegated credit risk control and management to the Risk Area, which sets the scope of the risk allocation levels corresponding to the branch network. The network's capacity to sanction risk is based on the level of risk and an alert system that takes into account factors such as the volume of risk, type of product and the operation margin.

The Risk Area, reporting to the General Manager, integrates the Risk Management, Monitoring and Recovery, Global Risk Control and Legal Counsel Departments. This has led to an increase in the efficiency of the processes for the admission, monitoring and recovery of credit risk and has strengthened the integrated control over the Parent Entity's risks.

All these matters are specified in the Risk Policy Manual, the latest version of which was approved by the Governing Body of Laboral Kutxa on 2 October 2015, and other documents related to it: Credit Risk Manual - Summary, and Manual of Good Practices in the Granting of Domestic Risks and MAP.

These documents determine the procedures for the granting, controlling and monitoring of credit risk and describe the usable predictive models, their variables, weighting, and capacities and criteria for sanctioning risks, the acceptance process, and risk mitigation and reduction policies.

The control mechanisms implemented by the Entity for the control of the effective monitoring of the above-mentioned policies, methods and procedures are based on the Global Risk Control systems implemented in the Entity, as well as on the independent supervision of the Internal Audit Department, ensuring the quality of the risk acceptance and management systems.

The Risk Management Department is responsible for the acceptance and follow-up of the portfolio companies. The objective of the Monitoring and Recovery Department is to manage the protocols associated with pre-default alerts in non-portfolio companies as well as maximising recoveries during the amicable phase (< 75 days of non-payment) and the pre-litigation phase (> 75 days of non-payment), while the Global Risk Control Department is responsible for developing and maintaining the internal models, as well as the measurement and control of structural interest rate and liquidity risk, market risk and operational risk. Finally, the Legal Counsel Department gives advice and legal documentary coverage for risk operations both in the initial stages and in possible debt refinancing or restructuring, as well as for the management of the recovery in litigation with the Corporate Clients Unit and the Entity's legal defence against claims by third parties and customers.

To evaluate the credit risk associated with the various operations, Laboral Kutxa has developed internal rating and scoring models that enable customers (rating) or operations (scoring) to be distinguished on the basis of their level of risk. For individuals the reactive risk acceptance process is based on binding scorings which are complemented using proactive pre-grant models, on the basis of the rating, of consumer loans automatically available to the customer in the various channels. For corporate customers the acceptance processes utilise a dual analyst/manager arrangement, with a customer/analyst portfolio assignment. For taking decisions, analysts have available the internal ratings and a pre-default alert model. Internal models are, therefore, a basic factor in appraising risk and allow the Group to estimate both the expected loss and the regulatory capital allocated to each operation.

These internal models, prepared by the Risk Control Department and submitted to systematic reviews, are employed, therefore, in the decision process and, additionally, for the construction and development of integrated databases that allow calculations to be made of the severity, expected losses, capital consumption, etc., in the framework of the requirements of the New Basel Agreement on Capital. Moreover, both the scoring 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.

- In the monitoring process, the Entity possesses internal pre-default models that allow prediction of payment default situations, so that those positions with a high default probability are managed in proactive manner.

- In recovery management a procedure has been implemented that covers the intervention of various agents in the recovery of the default, depending upon the time phase in which the default operation lies. Within this context, it should be noted that in recovery management both internal agents (offices, tele-bank, pre-trial and litigation) act along with external agents.

In general, the Parent Company measures real estate security at its appraised value, having established a policy of updating the value of property that meets the requirements laid down by Bank of Spain regulations.

With respect to credit risk with financial institutions and private fixed interest securities in the Treasury and Capital Markets area, ordinary limits are set annually by counterparty, concentration by reference and manager, and by country. To this end, a procedure for allocating limits based on external ratings and an alert system has been implemented.

(Expressed in €' 000)

The table below shows the breakdown of the Group's customer loan book at 31 December 2015 and 2014 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):

2015

				Loans secured by real collateral. Loan to value				
	Total (carrying amount)	**Of which: property**	**Of which: other collateral**	**≤ 40%**	**> 40% ≤ 60%**	**> 60% ≤ 80%**	**> 80% ≤ 100%**	**> 100%**
Government bodies	343,284	40,357	589	293	14,755	4,238	2,894	18,766
Other financial institutions	77,762	-	390	-	-	-	-	390
Non-financial companies and individual entrepreneurs	2,369,597	846,912	355,740	446,632	248,269	167,208	57,395	283,148
— Property construction and development (a)	84,009	74,026	7,232	12,345	11,193	20,273	6,271	31,176
— Public works construction	60,126	6,650	2,086	3,690	1,561	257	2,044	1,184
— Other purposes	2,225,462	766,236	346,422	430,597	235,515	146,678	49,080	250,788
Large corporates	212,265	33,762	5,429	9,579	-	-	-	29,612
SMEs and individual entrepreneurs	2,013,197	732,474	340,993	421,018	235,515	146,678	49,080	221,176
Other households and NPISHs	11,016,727	10,370,411	65,395	2,763,023	3,065,888	3,276,496	793,859	536,540
— Home mortgages	10,419,844	10,173,514	37,833	2,650,109	3,010,552	3,242,888	786,105	521,693
— Consumer loans	360,202	51,997	1,943	36,399	10,472	4,459	682	1,928
— Other	236,681	144,900	25,619	76,515	44,864	29,149	7,072	12,919
Less: Asset impairment losses not allocated to specific transactions	(87,959)	-	-	-	-	-	-	-
TOTAL	13,719,411	11,257,680	422,114	3,209,948	3,328,912	3,447,942	854,148	838,844
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	864,483	675,021	2,780	176,620	156,300	151,036	57,166	136,679

(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)

2014

	Total (carrying amount)	Of which: property	Of which: other collateral	Loans secured by real collateral. Loan to value lue ≤ 40%	> 40% ≤ 60%	> 60% ≤ 80%	> 80% ≤ 100%	> 100%
Government bodies	345,534	30,644	-	1,787	4,708	7,390	2,859	13,900
Other financial institutions	235,538	-	-	-	-	-	-	-
Non-financial companies and individual entrepreneurs	2,558,676	1,282,664	29,426	448,797	361,367	172,203	93,051	236,672
— Property construction and development (a)	216,020	207,124	20	11,165	37,514	47,666	19,723	91,076
— Public works construction	58,200	9,058	42	3,051	2,428	443	97	3,081
— Other purposes	2,284,456	1,066,482	29,364	434,581	321,425	124,094	73,231	142,515
Large corporates	255,250	46,375	2,961	5,204	528	-	2,961	40,643
SMEs and individual entrepreneurs	2,029,206	1,020,107	26,403	429,377	320,897	124,094	70,270	101,872
Other households and NPISHs	11,386,685	10,816,498	43,926	2,734,361	3,097,307	3,463,231	1,072,751	492,774
— Home mortgages	10,788,396	10,569,631	39,273	2,615,752	3,036,228	3,424,520	1,056,998	475,406
— Consumer loans	201,336	44,613	1,792	27,926	8,528	6,113	2,083	1,755
— Other	396,953	202,254	2,861	90,683	52,551	32,598	13,670	15,613
Less: Asset impairment losses not allocated to specific transactions	(119,462)	-	-	-	-	-	-	-
TOTAL	14,406,971	12,129,806	73,352	3,184,945	3,463,382	3,642,824	1,168,661	743,346
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	923,438	709,393	3,348	154,908	157,534	129,757	77,064	193,478

(b) 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.

A breakdown of the maximum credit risk covered by each of the primary guarantees and 31 December 2015 and 2014 is set out below:

2015	Real estate guarantee	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Measurement adjustments	Total
Customer loans								
Drawn down	11,545,489	27,488	468,730	603,299	1,718,680	(16,674)	(612,994)	13,734,018
Value of the guarantee	29,763,051	31,614	1,986,381	603,299	187,890	-	-	32,572,235

2014	Real estate guarantee	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Measurement adjustments	Total
Customer loans								
Drawn down	12,045,784	28,703	599,504	631,073	1,696,088	(144,821)	(730,888)	14,415,085
Value of the guarantee	31,489,135	32,777	2,456,548	631,073	152,212	-	-	34,761,745

(Expressed in €' 000)

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 2015 and 2014 was as follows:

	2015		
	Gross amount	Surplus over guarantee amount	Corrections for asset impairment. Specific coverage
Financing to construction and real estate promotion (business in Spain)	**344,847**	**196,274**	**204,510**
Of which, doubtful	306,557	170,511	200,371
Of which, substandard	21,194	9,186	4,139
For Notes:			
Failed assets	241,265		

For Notes:	Carrying amount
- Total credit to clients, excluding government bodies (business in Spain)	13,335,549
- Total asset (total businesses)	21,584,975
- Total Complimentary coverage (total businesses)	92,316

	2014		
	Gross amount	Surplus over guarantee amount	Corrections for asset impairment. Specific coverage
Financing to construction and real estate promotion (business in Spain)	**505,534**	**275,531**	**289,422**
Of which, doubtful	448,668	240,728	284,842
Of which, substandard	23,470	8,458	4,580
For Notes:			
Failed assets	207,116		

For Notes:	Carrying amount
- Total credit to clients, excluding government bodies (business in Spain)	14,033,162
- Total asset (total businesses)	24,724,675
- Total Complimentary coverage (total businesses)	125,606

(Expressed in €' 000)

The following is a breakdown of financing for construction, real estate promotion and home purchase at 31 December 2015 and 2014:

	Financing to construction and real estate promotion. Gross amount	
	2015	2014
Without mortgage guarantee	6,347	25,398
With mortgage guarantee	338,500	480,136
Finished buildings	157,802	219,736
Homes	121,835	174,239
Others	35,967	45,497
Buildings under construction	35,164	43,041
Homes	34,534	41,552
Others	630	1,489
Land	145,534	217,359
Developed land	11,527	32,398
Other land	134,007	184,961
Total	344,847	505,534

The breakdown of credit to households for home purchase at 31 December 2015 and 2014 is as follows:

	2015		2014	
	Gross amount	Of which, doubtful	Gross amount	Of which, doubtful
Credit for home purchase	10,106,210	240,623	10,476,624	260,504
Without mortgage guarantee	197,017	1,947	223,314	2,545
With mortgage guarantee	9,909,193	238,676	10,253,310	257,959

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 2015 and 2014 is as follows:

	Risk as % of latest available appraised value (loan to value) 2015					
	40% or less	Over 40% to 60% or less	Over 60% to 80% or less	Over 80% to 100% or less	Over 100%	Total
Gross amount	2,493,096	2,886,035	3,184,025	800,865	545,172	9,909,193
Of which, doubtful	18,112	29,301	50,810	41,406	99,047	238,676

	Risk as % of latest available appraised value (loan to value) 2014					
	40% or less	Over 40% to 60% or less	Over 60% to 80% or less	Over 80% to 100% or less	Over 100%	Total
Gross amount	2,459,099	2,913,183	3,355,814	1,031,874	493,340	10,253,310
Of which, doubtful	14,438	30,413	54,481	63,662	94,965	257,959

(Expressed in €' 000)

The breakdown of assets received in payment of debt at 31 December 2015 and 2014 is as follows:

	2015		2014	
	Carrying amount	*Of which:* Asset impairment adjustments	Carrying amount	*Of which:* Asset impairment adjustments
Real estate assets from financing to construction and real estate promotion companies	**291,049**	**303,479**	**278,161**	**323,081**
Finished buildings	31,792	11,141	17,626	26,565
Homes	29,601	10,858	15,526	25,629
Others	2,191	283	2,100	936
Buildings under construction	47,208	32,531	35,814	23,153
Homes	47,208	32,531	35,814	23,153
Others	-	-	-	-
Land	212,049	259,807	224,721	273,363
Developed land	24,540	41,165	24,490	40,973
Other land	187,509	218,642	200,231	232,390
Real estate assets from mortgage financing to households for home purchase	**36,502**	**4,240**	**28,604**	**2,784**
Other real estate assets received in payment for debt	**15,961**	**2,175**	**13,360**	**2,109**
Capital instruments, participations and financing to the companies holding these assets	**-**	**-**	**-**	**-**
Total	**343,512**	**309,894**	**320,125**	**327,974**

Management of problematic risk in the Promotion Sector

Prior considerations

The Group's current policy is restrictive.

The admission criteria are as follows:

- Concerning current risks
  - Recover risks involving developers that have defaulted or are subject to risk of attachment or insolvency through the purchase of assets (amicable solution) via foreclosure or through the instigation of legal proceedings.
  - Restructure debt whenever this entails an improvement in the original situation (due to reduced exposure or improved guarantees) and does not entail additional provisions.
- Concerning new risk applications:
  - Land. We do not finance the purchase of land, limiting our involvement, where appropriate, to sales of land by Sdad. tenedora de activos de LK to reputable developers.

- o Construction. The borrower and the financing project must meet stringent requirements to ensure their viability.

    - Only for developers with proven solvency. They require proven experience in the sector and a healthy balance sheet with a sustainable volume of debt and feasible projects.

    - Requirements to be met by projects:

        - Land must be free of charges and encumbrances and paid for in full, i.e. without any outstanding payments, resolutory conditions or guarantees linked to its purchase, swaps, etc.

        - The promoter must provide at least 30% of the total cost of the project or the land value if higher.
          If the land purchase is recent, the value of the land is considered to be the lower of the purchase value net of taxes and the appraised value.
          Therefore, LK will provide 70% of the cost at the most, including the cost of the site.

        - Level of commercialisation, pre-sales, considered as such once the purchase contract is signed, minimum of 70% of sales volume or at proposal of promotions must reach a minimum volume of at least 100% of the loan to be granted.

        - Term of around 2 - 3 years, depending on the duration of the work and a reasonable period for selling.

        - Drawdowns. Drawdowns may amount to a maximum of 100% of the progress billings signed by the managing architect, provided that the debt is less than 70% of the appraised value.

In compliance with Law 8/2012, at 31 December 2015 and 2014 the Group records real-estate assets derived from financing of construction and property development in various asset management companies. Percentage interest and details are contained in Appendix I to the notes to the consolidated annual accounts.

The foreclosure value at 31 December 2015 and 2014 of the assets in said companies amounts to €787,412 thousand and €790,097 thousand, respectively. At 31 December 2015, the balance of financing and capital or shareholder contributions to said companies amounted to €787,412 thousand and €5,030 thousand, respectively (€790,097 thousand and €17,263 thousand, respectively, at 31 December 2014) which at said date recorded an impairment adjustment of €505,354 thousand and €4,060 thousand, respectively (€509,810 thousand and €16,295 thousand respectively at 31 December 2014).

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).

As regards the classification and possible provisioning of the restructured investment, as a general rule all restructurings are classed as substandard and initially provisioned at 15% of the balance utilised, unless requirements are fulfilled to be classed as performing or doubtful.

- A restructuring will be classed as performing provided the following requirements are met:

    - Outstanding ordinary interest is collected without increasing exposure.
    - Effective collateral or solvent guarantors covering 100% of the debt.
    - Grace period shorter than 12 months.
    - Sufficient repayment capacity.
    - No prior restructurings.

- - A restructuring will be classed as doubtful when at least one of the following requirements are fulfilled:

    - No interest is collected or no effective collateral is furnished.
    - Grace period longer than 30 months, or 30 years in the case of mortgage loan (10 for other collateral).
    - Derives from a prior restructuring, unless it was classed as performing.

For restructured loans classed as doubtful, a minimum initial provision of 25% is recognised, unless the loan was classed as doubtful before the restructuring, in which case the provision percentage is increased above the amount applicable to the doubtful loan at the restructuring date.

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.

LABORAL kutxa

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(Expressed in €' 000)

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 2015 and 2014 of refinancing, refinanced and restructured transactions:

2015

	NORMAL						SUBSTÁNDAR							DOUBTFUL							TOTAL		
	Mortgage guarantee		Other collateral		Unsecured		Mortgage guarantee		Other collateral		Unsecured			Mortgage guarantee		Other collateral		Unsecured					
	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	Cobertura específica	Número de operaciones	Importe bruto	Número de operaciones	Importe bruto	Número de operaciones	Importe bruto	Mortgage guarantee	No. of transactions	Gross amount	No. of transactions
1. Administraciones Públicas	4	299	6	9,110	12	59,249	-	-	-	-	-	-	-	1	7,600	-	-	-	-	114	23	76,258	114
2. Resto de personas jurídicas y empresarios individuales	871	86,287	104	9,718	1,312	46,571	65	22,436	9	3,707	170	59,601	13,925	601	150,086	265	263,427	573	44,650	278,099	3,970	686,483	292,024
Del que: Financiación a la construcción y promoción	4	1,810	4	774	-	-	12	6,848	6	3,479	-	-	2,008	96	66,175	105	159,600	5	1,083	155,162	232	239,769	157,170
3. Resto de personas físicas	3,454	268,082	466	21,275	1,032	10,296	50	6,627	6	264	82	825	1,149	802	71,616	406	44,108	644	5,943	34,149	6,942	429,036	35,298
4. Total	**4,329**	**354,668**	**576**	**40,103**	**2,356**	**116,116**	**115**	**29,063**	**15**	**3,971**	**252**	**60,426**	**15,074**	**1,404**	**229,302**	**671**	**307,535**	**1,217**	**50,593**	**312,362**	**10,935**	**1,191,777**	**327,436**

2014

	NORMAL						SUB-STANDARD							DOUBTFUL							TOTAL		
	Mortgage guarantee		Other collateral		Unsecured		Mortgage guarantee		Other collateral		Unsecured			Mortgage guarantee		Other collateral		Unsecured					
	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	Other collateral No. of transact-tions	No. of transactions	Gross amount	No. of transactions	Gross amount	No. of transactions	Gross amount	Mortgage guarantee	No. of transactions	Gross amount	No. of transactions
1. Government bodies	4	1,922	2	5,524	10	35,466	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16	42,912	-
2. Other legal persons and individual entrepreneurs	810	80,131	107	15,008	1,326	85,179	79	22,531	43	11,669	417	59,453	14,791	486	176,363	470	351,217	619	62,201	331,818	4,357	863,752	346,609
Of which: Construction and development loans	5	1,962	3	640	-	-	15	8,382	2	1,174	-	-	1,853	127	108,262	159	218,929	9	4,305	217,360	320	343,654	219,213
3, Other physical persons	2,888	233,553	479	20,364	1,076	10,581	83	10,244	15	1,322	152	1,482	1,949	733	70,486	361	36,553	661	6,133	25,776	6,448	390,718	27,725
4, Total	**3,702**	**315,606**	**588**	**40,896**	**2,412**	**131,226**	**162**	**32,775**	**58**	**12,991**	**569**	**60,935**	**16,740**	**1,219**	**246,849**	**831**	**387,770**	**1,280**	**68,334**	**357,594**	**10,821**	**1,297,382**	**374,334**

(Expressed in €' 000)

The next table shows the breakdown at year-end 2015 and 2014 of the gross amounts of transactions classified as doubtful during the year subsequent to their refinancing or restructuring:

	2015		
	Gross amount		
	Mortgage guarantee	Other collateral	Unsecured
Government bodies	-	-	-
Other legal persons and individual entrepreneurs	6,779	2,089	3,725
Of which: Construction and development loans	-	-	-
Other physical persons	16,283	6,720	493

	2014		
	Gross amount		
	Mortgage guarantee	Other collateral	Unsecured
Government bodies	-	-	-
Other legal persons and individual entrepreneurs	13,844	13,197	6,551
Of which: Construction and development loans	2,551	1,470	-
Other physical persons	16,901	6,183	446

16. Liquidity risk

There are two different definitions of liquidity risk:

- Funds liquidity risk: is the risk that the Entity may not be able to efficiently face foreseen and unforeseen cash flows, present and future, as well as the contributions to guarantees resulting from its payment obligations, without its daily operations or financial situation being affected.

- Market liquidity risk: is the risk that a financial entity cannot compensate or easily dispose of a position at market prices because of a deep insufficiency or distortions on the market.

The Entity has always treated liquidity as a strategic objective, applying systematic management and control procedures over the past two decades. In this context, Caja Laboral has a Liquidity Risk Policies and Procedures Guide approved by its Governing Body based on the Basel Committee on Banking Supervision's “Principles for sound liquidity risk management and supervision” (document of September 2008); the guide establishes various liquidity objectives and a contingency plan including alert levels and action protocols. In this connection, the Parent Entity is currently preparing a Recovery Plan which will update said alert levels and action protocols relating to liquidity crisis situations, all of which will lead to a review of said guide.

As regards the tasks forming part of the procedures, liquidity management is supported by a control system that determines medium-term monthly liquidity objectives and systematically monitors the level of compliance with the objectives. These objectives are set out in a treasury plan that contains forecasts for the evolution of investible funds, lending and wholesale financing, as well as certain ratios; this is updated monthly, allowing the ALCO to use continuously updated information on the foreseeable evolution of liquidity in the medium term. The ALCO therefore has time to prepare appropriate actions to correct any imbalances in the evolution of aggregates affecting liquidity. Liquidity objectives include Available liquid assets and various liquidity ratios including, as from 2015, the liquidity coverage ratio (LCR); the Entity's LCR is at high levels at year-end 2013, well above the limit stipulated by the regulator for 1 January 2016.

Specifically, at year-end 2015, the Entity has:

- An LCR of 309%.

- Liquid discountable (and available) assets in the European Central Bank (ECB) of €4,916 million (following the application of haircuts), which allow unexpected contingencies to be dealt with. Of this amount, €1,637 million is available as an ECB loan and €3,279 million are eligible assets in the ECB that may be utilised by means of being pledged. Over the year, the Entity has maintained high positive net liquidity levels. In addition, no amounts have been obtained from the ECB TLTRO.

- A Loan to Deposits Ratio standing at 88.2%.

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

  - With an amount of €2,092 million, which represents 10% 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.

  - Diversified with respect to financing sources. At the year end Caja Laboral has issued mortgage secured bonds (excluding those held by the entity itself) amounting to €1,825 million (Note 36) and holds €30 million with respect to financing obtained through the ICO. The Entity also obtains financing on the market through the securitisation of mortgage bond holdings (discounting the tranches acquired by the entity itself) amounting to €237 million (Note 36), although as mentioned above they do not require refinancing at maturity.

  - Diversification with respect to maturity. The mortgage secured bonds and ICO financing mature as from 2016, on a diversified basis.

The Entity's financing structure is analysed below:

	2015	
Financing structure	**Euro millions**	**%**
Client deposits	14,674	70.05%
Mortgage bonds (1)	1,825	8.71%
ECB financing	-	0.00%
Securitisation (1)	237	1.13%
ICO and EIB financing	30	0.15%
Total Assets	20,948	

(1) Excluding own repurchased portfolio,

Set out below is a breakdown of wholesale financing by maturity date as from 2015:

	Euro millions			
Maturities of wholesale issues	**2016**	**2017**	**2018**	**>2018**
Mortgage Bonds	600	-	-	1,225
Territorial Bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	28	26	24	159
Taken from ECB	-	-	-	-
ICO and EIB financing	11	6	4	9
	639	32	28	1,393

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	
	31.12.2015	
	Utilised	**Available**
Net Liquid assets (2)	-	4,916

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

Issue Capacity	**Euro millions**
Issue capacity in Mortgage Bonds	2,947
Issue capacity in Territorial Bonds	223
Disposable in issues guaranteed by the State	-
	3,170

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):

(Expressed in €' 000)

2015

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Million euro							
	Total balance	Demand	Up to 1 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	18,292	12	726	838	1,315	1,225	5,155	9,021
TOTAL cash outflows	(18,328)	(10,493)	(1,392)	(1,213)	(1,393)	(2,065)	(1,010)	(762)
Neto	(36)	(10,481)	(666)	(375)	(78)	(840)	4,145	8,259

2014

BREAKDOWN OF ASSETS AND LIABILITIES BY REMAINING TERM TO MATURITY

	Million euro							
	Total balance	Demand	Up to 1 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	21,252	14	1,818	1,507	873	1,425	6,144	9,471
TOTAL cash outflows	(21,205)	(9,102)	(1,593)	(3,208)	(1,207)	(3,269)	(1,480)	(1,346)
Neto	47	(9,087)	225	(1,701)	(334)	(1,844)	4,664	8,125

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 (ALCO) the management and control of this risk within the limit set by that Body. This limit is established in terms of the maximum acceptable loss between two interest rate scenarios: market and an unfavourable scenario.

The ALCO systematically analyses exposure to the interest rate risk and through active management, attempts to anticipate through its decisions any negative medium-term impact on the income statement of unwanted variations in market interest rates. Its decisions are based on the measurement of the Entity's long-term results under different interest rate scenarios, carried out through simulations that deal with balance sheet and off-balance sheet structural positions.

The accompanying table sets out the static gap of interest rate sensitive items, which represents an initial approximation to the Parent Entity's exposure to interest rate fluctuations. However, given the limitations that this entails, it should be noted that this is not the measurement technique used by Caja Laboral to measure that risk, which has been described above.

	Euro million								
	Balance sheet balance at 31.12.15	**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	19,435	4,274	4,091	7,775	614	1,142	615	450	474
Money market	296	274	-	22	-	-	-	-	-
Credit market	14,444	3,082	3,574	6,086	457	238	164	135	708
Securities market	4,695	918	518	1,668	157	903	450	315	(234)
Sensitive liabilities	18,520	3,699	4,308	6,072	994	673	675	672	1,427
Money market	2,639	759	828	926	8	6	6	6	100
Creditors	15,881	2,940	3,480	5,146	986	667	669	666	1,327
Simple GAP		575	(216)	1,703	(380)	468	(61)	(222)	(953)
% of total liabilities		3%	(1%)	9%	(2%)	2%	(0%)	(1%)	(5%)
Cumulative GAP		575	359	2,063	1,683	2,151	2,090	1,869	915
% of total liabilities		3%	2%	11%	9%	11%	11%	10%	5%

	Euro million								
	Balance sheet balance at 31.12.14	**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	22,401	6,139	4,733	7,307	2,040	454	1,059	311	358
Money market	477	455	-	22	-	-	-	-	-
Credit market	14,911	3,494	3,395	6,140	589	318	150	108	717
Securities market	7,013	2,191	1,338	1,145	1,451	136	909	202	(359)
Sensitive liabilities	21,609	6,207	3,981	7,305	1,096	629	574	585	1,232
Money market	6,346	3,776	971	1,456	13	9	8	7	106
Creditors	15,263	2,432	3,010	5,849	1,083	620	566	577	1,125
Simple GAP		(68)	752	2	944	(175)	485	(274)	(874)
% of total liabilities		(0%)	3%	0%	4%	(1%)	2%	(1%)	(4%)
Cumulative GAP		(68)	684	686	1,630	1,455	1,940	1,666	792
% of total liabilities		(0%)	3%	3%	7%	6%	9%	7%	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.

According to the impact analysis performed by the Entity for the Supervisor, a fall of 200 basis points in interest rates would cause a reduction of approximately 2.69% in net interest income in year one. The criteria stipulated by the Supervisor for the preparation of these analyses are basically the maintenance of the initial balance sheet balances and structure, interest rate evolution in line with market expectations, and a four-year limit on the term of interest-free current accounts.

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 €4,2 million, roughly 0.27% 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

In relation to financial markets, 2015 was a year in which virtually all asset classes generated positive returns, with the exception of assets and geographical areas correlated with commodities.

Two distinct phases may be identified during the year, with a first half of the year in which the impact of the factors that had influenced the previous year (QE in European and Japanese central banks) was joined by the agreeable surprise of European growth (which began to exit its particular recessionary environment more vigorously than anticipated) and the stabilisation/recovery of oil prices. In this context, the equity markets and risk assets generally behaved very favourably. In contrast, in the second half a number of negative factors influenced investor sentiment and caused most of the gains accumulated in the first half of the year to evaporate. Factors such as the devaluation of the Chinese yuan in the face of the constant outflow of capital from the country have stoked fears concerning a slow-down in Chinese growth. In addition, the Fed has commenced its normalisation of monetary policy through the first rate increase after a long period of zero rates. Finally, a new collapse in oil prices has occurred which is beginning to be perceived as a destabilising factor due to its impact on producing countries and the new industry emerging in the USA, with potential contagion effects and chain reactions.

As for the macroeconomic environment, global growth was slightly higher than in the previous year resulting in a narrowing between growth rates in developed and emerging countries. While the USA grew a tenth more than in the previous year to 2.5%, Europe posted the fastest acceleration among developed blocks to achieve growth of 1.4%. In the emerging countries, China continued its economic model transition towards an economy that is more dependent on domestic demand and grew at rates under 7% for the first time in the last 15 years. On the negative side we must mention Brazil, which is undergoing a severe recession with a rate of -4.5%.

Inflation rates remained on very moderate levels in the major economies in a context in which the threat of deflation has not been entirely eliminated.

In relation to the performance of the central banks, which has been so important for markets in recent years, 2015 was characterised as the year that saw the "decoupling" of monetary policies among the major central banks. In this respect, the US Federal Reserve, having prepared the market for several months via more or less explicit messages, raised interest rates in December (0.25%) after almost ten years without a rise and after keeping rates at 0% for seven years, anticipating a very gradual normalisation of monetary policy dependent on the evolution of macroeconomic variables. Conversely, the Bank of Japan and the European Central Bank continued the implementation of their respective QE programmes, which were even enhanced in the case of the ECB when additional measures were announced in December, although on that occasion Mario Draghi disappointed the markets, which had anticipated stronger measures.

Finally, on a geopolitical level we should note the "resolution" of the Greek crisis, where despite his new election victory Tsipras had no choice but to bow to the conditions imposed by the Troika, and the close result of the elections to the Spanish parliament that left a complex governance scenario. We should also note the “determined” commitment by Saudi Arabia to defend its share of the oil market through increases in production despite the existing oversupply, which had a major impact on oil prices as they slumped again in the second half of the year, raising fears of crises in producing countries and in related sectors.

This environment had differing repercussions in market terms:

1. First, as mentioned before, there were two distinct phases in the financial year. During the first half of the year most risk assets behaved very favourably while in the second half performance was negative, concluding in a flat or even negative performance by some at the end of the year.

2. Second, a general increase in volatility, especially in the second half of the year.

3. The asymmetry in the monetary policy cycle of central banks (with the Fed raising rates and ECB-BOJ resorting to QE) has driven the appreciation of the dollar against most currencies, both developed (10% against the euro and the yen) and emerging (+16% against a basket of currencies).

4. Stock indices in the major developed markets ended the year with very modest increases, or even with decreases. The following may be highlighted, from best to worst: Nikkei (+9%), Eurostoxx50 (+4%), S&P500 (-1%) and IBEX (-7%). Emerging stock markets, with some exceptions, generally ended the year on a negative note. The MSCI Emerging index in local currency fell by 8%.

5. Finally, in relation to the fixed income markets, yields were also very low in general, with a slightly favourable performance by sovereign bonds and slightly negative perfomance by investment grade corporate bonds. We should also highlight the influence of the ECB measure to set the deposit facility rate on an increasingly negative level, which has dragged down the entire euro yield curve to such an extent that at the end of the year the Euribor rates up to 9 months had negative fixings and treasury bonds from the main core countries offered negative returns for up to 5 years. In Spain, 1-year Treasury Bonds were priced at -0.05%.

In these circumstances, the securities included in the available-for-sale financial asset portfolio have performed in line with the market, which has been reflected in the net capital gain and capital loss balance figuring in the valuation adjustment accounts.

19. Operational Risk

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

Laboral Kutxa has complied with its reporting obligations through the standard method, according to the methodology described in Regulation 575/2013 of the European Parliament and Council of 26 June 2013.

On a qualitative level, the Entity has risk maps and controls in all departments. Annually, a risk self-assessment is performed and then action plans are launched to mitigate the most critical risks.

The Parent Entity has a network of 57 coordinators and 30 validators to perform the functions required by the system (self-assessments and action plans). In December 2015 the ninth self-assessment is being completed, after which new action plans will be launched.

On a quantitative level, the Parent Entity has operated an internal database of operating losses since 2002. Each loss is assigned to an event type and business line, defined by Regulation 575/2013 of the European Parliament and Council of 26 June 2013.

Additionally, Laboral Kutxa is part of the benchmarking system of the Spanish Confederation of Savings Banks, from which it obtains a vision of the relative position of the Entity in relation to the Savings Banks sector.

20. Insurance operation risk

Risks relating to insurance policies include a number of variables that could significantly affect future cash flows in terms of both amount and chronological distribution.

Mortality, disability and longevity tables are variables that affect the loss ratio and therefore cash outflows due to claim payments. The Group periodically adjusts its technical bases for mortality and survival tables using the most recent data supplied by national and international insurance industry work groups and on statistics approved by the Directorate General for Insurance and Pension Funds.

In accordance with the regulations laid down by the Directorate General for Insurance, the Group has applied PERM/F-2000 tables to new insurance saving products since 15 October 2000. For the risk of death in new business the PASEM-2010 tables are used, while PEAIM-2007 tables are used for risk of disability. The shortfall in the portfolio existing when the tables were applied was absorbed in 2007, even though the prevailing legislation provided for a period of 15 years as from 1 January 1999.

With respect to policies carrying a guaranteed technical interest rate in force before the Private Insurance Regulations (RD 2486/1998, 20 November) came into effect (the Regulations), the Group applies the provisions of Transitional Provision Two of the Regulations, verifying that the actual return on the investments linked to these policies is higher than the technical interest rate stipulated in the policies.

For 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 Claims Reserve is calculated in accordance with Private Insurance Regulations.

The publication of Directive 2009/138 /EC of the Parliament and Council of 25 November 2009 on life insurance and access to the insurance and reinsurance business, hereinafter Solvency Directive II, coming into force on 1 January 2016, signals the introduction of a new organisation, supervision and solvency regime for insurers and reinsurers.

According to the implementation schedule envisaged by the regulations in force, Seguros Lagun Aro, S.A. and Seguros Lagun Aro Vida, S.A. are not required to report the definitive data as at the date on the entry into force of the new regulations (1 January 2016) to the Regulator until 19 May 2016.

At the date of preparation of these consolidated annual accounts, the Board of Directors of each of these companies is analysing the possibility of providing preliminary information in this respect and to date no definitive information on this matter is available.

Notwithstanding the foregoing, based on the temporary measures for the gradual adaptation to the new regime established in Solvency Directive II, the Directors do not anticipate the existence of significant obstacles in relation to compliance with the new legislation that could affect the continuity of the entities' operations.

In any case, this new scheme provides for temporary transitional provisions to ease the measures it lays down in the event of possible non-compliance.

21. Risk concentration

Pursuant to EU Parliament and Council Regulation 575/2013 and subsequent amendments concerning solvency requirements, with respect to major exposures, defined as those exceeding 10% of equity, no exposure to one party or group may exceed 25% of equity. If in an exceptional case exposures exceed that limit, the entity shall immediately report the size of the exposure to the competent authorities, which may grant the credit institution, if the circumstances so warrant, a limited period of time to comply with the limit. The Entity's risk appraisal policy takes into account these limits and criteria, having established risk limits by counterparty that are consistent with these requirements and control procedures over any excess.

At 31 December 2015 and 2014, only the risk with the MONDRAGON cooperatives, which for the purposes of large exposures are considered to be an economic risk unit, may be regarded as a "large exposure" as it exceeds 10% of equity.

(Expressed in €' 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 2015 and 2014, are as follows:

2015

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of world
Credit institutions	1,722,909	1,098,153	608,670	7,185	8,901
Government bodies	4,504,423	4,477,285	27,138	-	-
– Central government	3,965,264	3,938,473	26,791	-	-
– Other levels of government	539,159	538,812	347	-	-
Other financial institutions	620,108	313,230	247,223	55,991	3,664
Non-financial corporates and individual entrepreneurs	2,681,631	2,591,148	85,414	2,325	2,744
– Property construction and development	101,685	101,685	-	-	-
– Public works construction	73,327	73,231	96	-	-
– Other purposes	2,506,619	2,416,232	85,318	2,325	2,744
Large corporates	365,201	283,269	79,302	-	2,630
SMEs and individual entrepreneurs	2,141,418	2,132,963	6,016	2,325	114
Other households and NPISHs	11,040,459	11,023,681	13,248	1,798	1,732
– Home mortgages	10,420,070	10,404,098	12,650	1,633	1,689
– Consumer loans	360,202	359,971	169	33	29
– Other	260,187	259,612	429	132	14
Less: Asset impairment losses not allocated to specific transactions	(90,489)				
TOTAL	20,479,041	19,503,497	981,693	67,299	17,041

2014

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of world
Credit institutions	2,430,501	1,721,563	693,247	10,174	5,517
Government bodies	6,164,242	6,140,288	23,954	-	-
– Central government	5,652,949	5,628,995	23,954	-	-
– Other levels of government	511,293	511,293	-	-	-
Other financial institutions	837,040	500,796	272,935	58,607	4,702
Non-financial corporates and individual entrepreneurs	2,902,999	2,817,115	80,848	1,168	3,868
– Property construction and development	250,467	250,467	-	-	-
– Public works construction	76,703	76,703	-	-	-
– Other purposes	2,575,829	2,489,945	80,848	1,168	3,868
Large corporates	414,559	335,248	75,715	-	3,596
SMEs and individual entrepreneurs	2,161,270	2,154,697	5,133	1,168	272
Other households and NPISHs	11,456,265	11,439,338	13,867	1,724	1,336
– Home mortgages	10,788,396	10,772,385	13,176	1,534	1,301
– Consumer loans	201,336	201,074	170	57	35
– Other	466,533	465,879	521	133	-
Less: Asset impairment losses not allocated to specific transactions	(123,083)				
TOTAL	23,667,964	22,619,100	1,084,851	71,673	15,423

(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)

2015

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Credit institutions	1,098,153	11,327	-	1,030,821	56,005
Government bodies	4,477,285	314,191	98,319	121,343	3,943,432
– Central government	3,938,473	-	-	-	3,938,473
– Other levels of government	538,812	314,191	98,319	121,343	4,959
Other financial institutions	313,230	175,989	127	123,792	13,322
Non-financial corporates and individual entrepreneurs	2,591,148	1,606,603	298,038	216,022	470,485
– Property construction and development	101,685	57,866	13,425	2,752	27,642
– Public works construction	73,231	20,314	3,066	44,954	4,897
– Other purposes	2,416,232	1,528,423	281,547	168,316	437,946
Large corporates	283,269	151,490	14,249	68,601	48,929
SMEs and individual entrepreneurs	2,132,963	1,376,933	267,298	99,715	389,017
Other households and NPISHs	11,023,681	6,453,039	1,347,965	315,567	2,907,110
– Home mortgages	10,404,098	6,057,260	1,267,411	302,575	2,776,852
– Consumer loans	359,971	290,998	21,404	6,577	40,992
– Other	259,612	104,781	59,150	6,415	89,266
Less: Asset impairment losses not allocated to specific transactions	(90,206)				
TOTAL	19,413,291	8,561,149	1,744,449	1,807,545	7,390,354

2014

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Credit institutions	1,721,563	13,923	-	1,558,589	149,051
Government bodies	6,140,288	264,926	142,833	97,905	5,634,624
– Central government	5,628,995	-	-	-	5,628,995
– Other levels of government	511,293	264,926	142,833	97,905	5,629
Other financial institutions	500,796	172,217	160	314,420	13,999
Non-financial corporates and individual entrepreneurs	2,817,115	1,758,785	325,251	272,369	460,710
– Property construction and development	250,467	173,290	26,253	3,877	47,047
– Public works construction	76,703	23,191	4,557	46,219	2,736
– Other purposes	2,489,945	1,562,304	294,441	222,273	410,927
Large corporates	335,248	165,257	11,693	122,416	35,882
SMEs and individual entrepreneurs	2,154,697	1,397,047	282,748	99,857	375,045
Other households and NPISHs	11,439,338	6,711,556	1,409,861	299,060	3,018,861
– Home mortgages	10,772,385	6,258,312	1,328,936	288,008	2,897,129
– Consumer loans	201,074	137,156	21,583	4,898	37,437
– Other	465,879	316,088	59,342	6,154	84,295
Less: Asset impairment losses not allocated to specific transactions	(122,457)				
TOTAL	22,496,643	8,921,407	1,878,105	2,542,343	9,277,245

(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 2015 and 2014:

	2015	2014
Cash	88,463	78,688
Deposits at Bank of Spain	94,709	64,764
Other deposits	94,709	64,764
Measurement adjustments	5	4
Interest accrued	5	4
	183,177	143,456
By currency:		
In euro	181,610	142,542
In dollars	1,037	473
In Swiss francs	147	70
In pounds sterling	283	228
In Japanese yen	11	10
Other	89	133
	183,177	143,456

The average rate of interest per annum in 2015 and 2014 on Deposits at the Bank of Spain amounted to 0,050% and 0,049%, respectively.

Under EC Regulation 1745/2008 of the European Central Bank, credit institutions in EU Member States were required to comply with a minimum reserve ratio of 1% at 31 December 2015 and 2014, respectively, calculated on the basis of their qualifying liabilities as determined in said Regulation. At 31 December 2015 and 2014, Laboral Kutxa has complied with the minimum levels of this ratio required by the legislation in force.

23. Asset and liability trading portfolio

Set out below is a breakdown of these headings in the consolidated balance sheet at 31 December 2015 and 2014:

	Assets		Liabilities	
	2015	2014	2015	2014
Debt securities	255,143	278,881	-	-
Equity instruments	776	1,062	-	-
Derivatives held for trading	3,047	8,280	3,430	10,230
	258,966	288,223	3,430	10,230

During 2015 the trading portfolio has fallen by around €30 million due mainly to sales of Government Debt and Treasury Bills, as well as other fixed income securities. In 2014 new purchases were made of Government Debt and Treasury Bills which increased exposure to public debt in the trading portfolio for that year by over €100 million.

(Expressed in €' 000)

The fair value of the items included in the asset and liability trading portfolio at 31 December 2015 and 2014, as well as the measurement techniques applied, are set out in Note 43.

The effect on the consolidated income statements for the years ended 31 December 2015 and 2014 of changes in the fair value of items included in the Assets and liabilities trading portfolio is as follows (Note 52):

	Gains		Losses	
	2015	2014	2015	2014
Debt securities	21,188	13,533	21,053	10,909
Other equity instruments	18,504	19,379	21,989	17,289
Derivatives held for trading	36,409	25,373	32,320	27,591
	76,101	58,285	75,362	55,789

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2015 and 2014 resulting from changes in fair value of the asset and liability trading portfolio is as follows:

	Gains		Losses	
	2015	2014	2015	2014
Items whose fair value is:				
Calculated taking as a reference quotes (Level 1)	33,908	27,666	42,685	30,148
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	42,193	30,619	32,677	25,641
Data not supplied by the market (Level 3)	-	-	-	-
	76,101	58,285	75,362	55,789

(Expressed in €' 000)

The breakdown by currency and maturity of the asset and liability trading portfolio headings of the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	Assets		Liabilities	
	2015	2014	2015	2014
By currency:				
In euro	258,966	288,223	3,430	10,230
	258,966	288,223	3,430	10,230
By maturity:				
Up to 1 month	805	524	121	791
Between 1 month and 3 months	332	1,554	178	1,775
Between 3 months and 1 year	836	4,208	1,464	4,238
Between 1 and 5 years	111,552	175,148	975	1,705
Over 5 years	144,665	105,727	692	1,721
No set maturity	776	1,062	-	-
	258,966	288,223	3,430	10,230

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:

	2015		2014	
	Amount	%	Amount	%
By geographical sector:				
Spain	258,075	99.66%	287,827	99.86%
Other European Union countries	891	0.34%	396	0.14%
Rest of the world	-	-	-	-
	258,966	100,00%	288,223	100.00%
By counter-party categories:				
Credit institutions	30,089	11.62%	11,686	4.05%
Resident Public Administrations	226,707	87.54%	223,877	77.68%
Other resident sectors	2,014	0.78%	52,298	18.14%
Other non-resident sectors	156	0.06%	362	0.13%
	258,966	100.00%	288,223	100.00%
By instrument types:				
Listed bonds and debentures	255,143	98.52%	278,881	96.76%
Other fixed – income securities	-	-	-	-
Derivatives not traded on organised Markets	3,047	1.18%	8,280	2.87%
Listed shares	776	0.30%	1,062	0.37%
	258,966	100.00%	288,223	100.00%

(Expressed in €' 000)

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

	2015		2014	
	Amount	%	Amount	%
Risks rated A	27,978	10.80%	24	0.01%
Risks rated B	228,817	88.36%	281,183	97.56%
Amounts not rated	2,171	0.84%	7,016	2.43%
	258,966	100.00%	288,223	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2015 and 2014 break down as follows:

	2015	2014
Spanish government debt securities	212,473	223,877
Credit Oficial Institute	28,436	9,358
Other fixed income securities	14,234	45,646
	255,143	278,881

Average annual rates of interest on banking debt securities in 2015 and 2014 were 1.046% and 1.566% respectively.

c) Equity instruments

Set out below is a breakdown of Other equity instruments on the assets side of the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Equity investments in Spanish entities	-	700
Equity investments in foreign entities	156	362
Shares in investment funds	620	-
Other shareholdings	-	-
	776	1,062

During 2015, the Parent Entity sold all its holdings in Spanish listed companies (Endesa, S.A. and Sacyr, S.A.), making a profit of €50 thousand.

(Expressed in €' 000)

d) Derivatives held for trading

Derivatives held for trading under assets and liabilities on the consolidated balance sheets at 31 December 2015 and 2014 break down as follows:

	2015		
	Notional value	Fair value	
		Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	35,326	1,117	195
Sales	68,946	331	1,016
Financial and interest rate forwards			
Purchased	-	-	-
Sold	11,615	-	-
Securities options			
Purchased	35,000	948	-
Sold	1,504,107	-	787
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	6,289	15	-
Sold	9,490	-	15
Other interest rate operations			
FRAs	-	-	-
Rate swaps	15,384	139	227
Call Money Swap (CMS)	-	-	-
Other	-	497	1,190
		3,047	3,430

	2014		
	Notional value	Fair value	
		Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	60,037	2,528	1
Sales	98,287	29	2,961
Financial and interest rate forwards			
Purchased	-	-	-
Sold	5,000	-	-
Securities options			
Purchased	369,150	2,248	4,166
Sold	2,187,937	2,318	-
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	9,500	10	-
Sold	19,100	-	10
Other interest rate operations			
FRAs	-	-	-
Rate swaps	133,631	1,085	1,118
Call Money Swap (CMS)	-	-	-
Other	-	62	1,974
		8,280	10,230

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.

(Expressed in €' 000)

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 2015 and 2014:

	Assets		Liabilities	
	2015	2014	2015	2014
Debt securities	-	1,225	-	-
Equity instruments	558	903	-	-
	558	2,128	-	-

The fair value of the items included in this category at 31 December 2015 and 2014, as well as the measurement techniques applied, are set out in Note 43.

The effect on the consolidated income statement for the years ended 31 December 2015 and 2014 resulting from changes in the fair value of the items recorded as assets and liabilities at fair value through changes in profit and loss, is as follows (Note 52):

	Gains		Losses	
	2015	2014	2015	2014
Debt securities	4,314	4,518	1,432	1,527
Others equity instruments	14	6	10	4
	4,328	4,524	1,442	1,531

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2015 and 2014, 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	
	2015	2014	2015	2014
Items whose fair value is:				
Calculated taking as a reference quotes (Level 1)	4,328	858	1,442	336
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	-	3,666	-	1,195
Data not supplied by the market (Level 3)	-	-	-	-
	4,328	4,524	1,442	1,531

(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 2015 and 2014, by currency and maturity date, is as follows:

	Assets		Liabilities	
	2015	2014	2015	2014
By currency:				
In euros	558	2,128	-	-
	558	2,128	-	-
By maturity:				
Demand deposits	-	1,225	-	-
Between 3 months and 1 year	-	-	-	-
Between 1 and 5 years	-	-	-	-
Over 5 years	-	-	-	-
No set maturity	558	903	-	-
	558	2,128	-	-

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:

	2015		2014	
	Amount	%	Amount	%
By geographical sector:				
Spain	558	100.00%	903	42.43%
Other European Union countries	-	-	1,225	57.57%
Rest of the world	-	-	-	-
	558	100.00%	2,128	100.00%
By counter-party categories:				
Credit institutions	-	-	1,225	57.57%
Resident Public Administrations	-	-	-	-
Other resident sectors	558	100.00%	903	42.43%
Other non-resident sectors	-	-	-	-
	558	100.00%	2,128	100.00%
By instrument types:				
Listed bonds and debentures	-	-	1,225	57.57%
Other fixed-income securities	-	-	-	-
Participation units in Investment Funds	558	100.00%	903	42.43%
	558	100.00%	2,128	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:

	2015		2014	
	Amount	%	Amount	%
Risks rated A	-	-	1,225	57.57%
Risks rated B	-	-	-	-
Amounts not rated	558	100.00%	903	42.43%
	558	100.00%	2,128	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2015 and 2014 break down as follows:

	2015	2014
Spanish public debt	-	-
Other fixed income securities	-	1,225
	-	1,225

The average annual yields in 2015 and 2014 on debt securities in the insurance business stood at 4.15% and 17.17%, respectively.

c) Equity instruments

Equity instruments on the asset side of the consolidated balance sheet at 31 December 2015 and 2014 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 2015 and 2014:

	2015	2014
Debt securities	4,228,921	6,000,628
Spanish public debt	3,494,985	4,883,221
Treasury Bills	317,000	1,205,361
Government bonds and debentures	3,177,985	3,677,860
Other debt securities traded by the book-entry system	-	-
Other Spanish Public Administrations debt	11,236	30,867
Foreign public debt	13,566	7,599
Issued by credit institutions	474,807	840,941
Resident sectors	243,945	595,335
Non-resident sectors	230,862	245,606
Other fixed-income securities	236,734	255,658
Issued by other resident sectors	67,148	48,806
Issued by other non-resident sectors	169,586	206,852
Doubtful assets	37,865	220
Value adjustments for asset impairment	(40,272)	(17,878)
Microhedge transactions	-	-
Equity instruments	387,420	391,071
Holdings in Spanish entities	116,330	130,574
Holdings in foreign entities	92,020	83,926
Participation units in Investment Funds	119,210	113,149
Shares in venture capital companies	56,423	59,985
Assets related to the Development and Education Fund	3,437	3,437
	4,616,341	6,391,699

At 31 December 2015 “Equity instruments” include €6,105k (€6,723k at 31 December 2014), which relates to holdings in companies which the Parent Entity 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 2015 and 2014, as well as the measurement techniques applied, are set out in Note 43.

Note 41 provides a breakdown of the balance of the heading Equity - Measurement adjustments at 31 December 2015 and 2014 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 2015 and 2014 recognized in the consolidated income statement totalled €9,029k and €7,099k, respectively, both net of the tax effect.

(Expressed in €' 000)

As mentioned in Note 16, in accordance with the active financing and liquidity monitoring policy of the Parent Entity, during 2014 significant purchases of Government debt and Treasury Bills were made which increased by its exposure to such public debt in the Available-for-sale financial asset portfolio over €1,690 million and €1,205 million.

During 2015 Government debt and Treasury Bills worth €2,176 million were redeemed. The Entity has used the liquidity obtained from said redemptions to repay part of the amount taken in the ECB LTRO auction.

The breakdown by currency and maturity of the amounts presented under available-for-sale financial assets on the consolidated balance sheet at year-end 2015 and 2014 is provided in the table below:

	2015	2014
By currency:		
Euro	4,561,844	6,335,541
US dollars	41,943	43,122
Pounds sterling	10,038	10,624
Swiss francs	2,516	2,412
Other	-	-
	4,616,341	6,391,699
By maturity:		
Up to 1 month	218,264	1,207,555
Between 1 month and 3 months	315,395	1,012,360
Between 3 months and 1 year	975,729	812,761
Between 1 year and 5 years	2,323,228	2,485,055
Over 5 years	436,577	500,594
No set maturity	387,420	391,070
Measurement adjustments	(40,272)	(17,878)
	4,616,341	6,391,699

The reconciliation of the opening and closing balances of available-for-sale financial assets for 2015 and 2014 are as follows:

	2015	2014
Balance at beginning of the year	6,391,699	3,908,757
Net additions/decreases	(1,707,685)	2,435,278
Changes in fair value	(30,544)	45,844
Net impairment losses recognised in profit or loss	(37,129)	1,820
Other	-	-
Balance at the end of the year	4,616,341	6,391,699

The average annual interest rate in 2015 and 2014 on debt securities in the banking business was 1.707% and 2.579%, respectively. The average annual yield in 2015 and 2014 on debt securities in the insurance business was 3.54% and 4.25%, respectively.

(Expressed in €' 000)

At 31 December 2015, the item "Debt securities – Issued by credit institutions Non-resident sectors" includes five issues for a total amount of €192 million (five issues totalling €198 million at 31 December 2014), maturing between 2017 and 2018, the yield on which is linked to interest rate parameters including floors and caps.

The Available-for-sale financial asset portfolio at 31 December 2015 also contains other subordinated debt instruments totalling €4,755 thousand (€10,997 thousand at 31 December 2014). In 2015 such securities amounting to €6,097 thousand have been transferred to Doubtful assets.

At 31 December 2015 and 2014, the Parent Entity has equity holdings in certain unlisted companies with respect to which there is uncalled capital amounting to €397 thousand at 31 December 2015.

a) Credit risk

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

	2015		2014	
	Amount	**%**	**Amount**	**%**
Spain	3,839,179	89,93%	5,558,229	92,35%
Other European Union countries	415,318	9,73%	441,421	7,34%
Rest of Europe	311	-	-	-
Rest of the world	14,385	0,34%	18,856	0,31%
	4,269,193	100,00%	6,018,506	100,00%
Measurement adjustments	(40,272)		(17,878)	
	4,228,921		6,000,628	

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

	2015		2014	
	Amount	**%**	**Amount**	**%**
Risks rated A	210,761	4.98%	169,254	2.82%
Risks rated B	3,848,942	91.01%	5,510,304	91.83%
Risks rated C	-	-	-	-
Unrated doubtful assets	37,865	0.90%	220	-
Amounts not rated	131,353	3.11%	320,850	5.35%
	4,228,921	100.00%	6,000,628	100.00%

Due mainly to the expectations concerning the recovery of future flows of certain financial assets, the evolution of the stock markets, the liquidity situation of certain bond issues and the increases in credit risk spreads, in 2015 the Group recognised an impairment with respect to certain debt instruments included in the Financial assets available for sale portfolio.

(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 2015 and 2014 is set out below (Note 59):

	2015	2014
Debt securities	28,843	(3,869)
Other equity instruments	8,286	2,049
	37,129	(1,820)
Appropriations charged to income		
Determined collectively	38,367	3,278
Determined individually	(1,091)	419
Appropriations recovered taken to income	(147)	(5,517)
	37,129	(1,820)

Movements during 2015 and 2014 in value adjustments for asset impairment in the item Available-for-sale assets – Debt securities are set out below:

	2015	2014
Opening balance	17,878	21,813
Net appropriations/(Recoveries) charged/(credited) to the income statement	28,843	(3,869)
Additions due to business combinations	(6,449)	(66)
	40,272	17,878

Set out below is a breakdown by manner of determination of value adjustments for asset impairment in the item Available-for-sale assets at 31 December 2015 and 2014:

	2015	2014
By manner of determination:		
Determined individually	37,741	14,256
Determined collectively	2,531	3,622
	40,272	17,878

(Expressed in €' 000)

26. Credit investments

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Deposits at credit institutions	196,117	216,396
Customer loans	13,719,411	14,406,971
Debt securities	51,535	51,048
	13,967,063	14,674,415

The breakdown by currency and maturity of Credits, loans and discounts in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	2015	2014
By currency:		
In Euro	14,555,470	15,380,489
In US dollars	17,936	20,001
In pounds sterling	1,484	998
In Japanese yen	2,587	416
In Swiss francs	400	167
Other	826	476
Measurement adjustments	(611,640)	(728,132)
	13,967,063	14,674,415
By maturity:		
Demand deposits	164,523	184,555
Up to 1 month	360,066	536,663
Between 1 month and 3 months	116,464	123,557
Between 3 months and 1 year	306,534	338,298
Between 1 and 5 years	1,181,963	1,234,792
Over 5 years	12,132,282	12,630,093
No set maturity	316,871	354,589
Measurement adjustments	(611,640)	(728,132)
	13,967,063	14,674,415

Average annual interest rates on loans and advances to credit institutions for 2015 and 2014 were 5.04% and 10.09% respectively. In 2014 the heading Loans and advances to credit institutions included four deposits arranged with Depfa Bank plc.bearing interest at an average annual rate of 11%. Two of said deposits were sold in February and April 2014.

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.

(Expressed in €' 000)

At 31 December 2015 and 2014 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:

	2015		2014	
	Amount	%	Amount	%
With no appreciable risk	855,143	6%	1,081,930	7%
Low risk	8,941,517	64%	9,110,173	62%
Medium – low risk	1,732,315	12%	2,019,966	14%
Medium risk	1,514,452	11%	1,441,903	10%
Medium-high risk	280,801	2%	256,624	2%
High risk	94,686	1%	89,136	1%
Substandard risk	124,673	1%	149,819	1%
Doubtful assets	1,035,116	7%	1,247,260	8%
Amounts not rated	-	-	5,736	-
Measurement adjustments	(611,640)	(4%)	(728,132)	(5%)
	13,967,063	100%	14,674,415	100%

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:

2015	2014	2013
7.21%	8.23%	9.03%

(Expressed in €' 000)

a) Customer loans

The breakdown, into various headings, of Customer Loans in the heading of Credit Investments at 31 December 2015 and 2014, is as follows:

	2015	2014
By type and situation:		
Spanish Public Administrations	335,462	345,148
Commercial loans	240,693	261,733
Loans secured by mortgage guarantee	10,548,244	11,042,198
Loans secured by other real property guarantees	45,540	52,954
Other term loans	1,755,727	1,650,365
Finance leases	170,062	157,830
Demand loans and other	119,111	115,764
Repurchase agreements with counterparty entities	41,289	235,526
Doubtful assets	1,035,116	1,247,260
Other financial assets	41,360	28,883
Measurement adjustments	(613,193)	(730,690)
Interest accrued	11,475	14,828
Value adjustments for asset impairment	(614,769)	(733,608)
Fees	(9,899)	(11,910)
	13,719,411	14,406,971
By sector of activity of borrower:		
Spanish Public Administrations	343,284	345,534
Other resident sectors:	13,261,986	13,774,196
Agriculture, farming, hunting, forestry and fisheries	58,530	55,625
Industries	659,050	730,736
Construction	493,555	653,284
Services	1,467,281	1,501,391
Commerce and hotel and catering	734,391	720,419
Transport and communications	183,336	164,781
Other services	549,554	616,191
Loans to individuals:	10,994,007	11,387,577
Home loans	10,089,957	10,460,901
Consumer and other	904,050	926,676
Not classified	202,761	176,277
Measurement adjustments	(613,198)	(730,694)
Other non-resident sectors	25,200	22,820
Other financial assets	47,603	28,883
By sector of activity of borrower	41,338	235,538
	13,719,411	14,406,971
By geographical area:		
- Bizkaia	3,836,961	4,150,033
- Gipuzkoa	3,393,829	3,400,379
- Araba	1,583,439	1,684,946
- Navarra	1,675,944	1,787,102
- Expansion network	3,801,142	3,879,663
- Unclassified	-	-
- Others	41,289	235,538
Measurement adjustments	(613,193)	(730,690)
	13,719,411	14,406,971
Owing to interest rate applied		
Fixed interest rate	993,014	822,696
Variable interest rate linked to Euribor	12,697,832	13,454,538
Variable interest rate linked to CECA	-	-
Variable interest rate linked to IRHH	315,572	357,573
Other	326,186	502,854
Measurement adjustments	(613,193)	(730,690)
	13,719,411	14,406,971

(Expressed in €' 000)

The breakdown by currency and maturity of Customer loans in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	2015	2014
By currency:		
In Euro	14,320,781	15,127,292
In US dollars	11,143	9,791
In pounds sterling	286	74
In Japanese yen	311	372
In Swiss francs	74	132
Others	9	-
Measurement adjustments	(613,193)	(730,690)
	13,719,411	14,406,971
By maturity:		
On demand	10,102	-
Up to 1 month	360,066	518,721
Between 1 month and 3 months	116,205	123,557
Between 3 months and 1 year	306,534	338,298
Between 1 and 5 years	1,106,772	1,158,754
Over 5 years	12,116,054	12,614,872
No set maturity	316,871	383,459
Measurement adjustments	(613,193)	(730,690)
	13,719,411	14,406,971

At 31 December 2015 and 2014, the Group has recorded subordinated loans amounting to €7,528 thousand in Customer loans.

At 31 December 2015 and 2014 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 2015 and 2014 the investment outstanding and residual values by type of asset financed are as follows:

Principal	**2015**	**2014**
Capital goods	30,215	27,351
Computer hardware	1,017	1,013
Materials and transport vehicles	40,564	29,188
Cars	18,491	16,229
Other assets	11,650	11,855
Total moveable property	101,937	85,636
Real property	62,224	72,538
TOTAL	164,161	158,174

(Expressed in €' 000)

Residual value	2015	2014
Capital goods	1,165	1,182
Computer hardware	49	60
Materials and transport vehicles	3,577	2,983
Cars	11,082	11,102
Other assets	521	503
Total moveable property	16,394	15,830
Real state property	6,165	6,642
TOTAL	22,559	22,472

Of these balances, a total amount of €16,658k and €22,816k related to impaired assets included in the item Doubtful assets at 31 December 2015 and 2014, respectively.

A breakdown of securitisation and other asset transfers by the Parent Entity at 31 December 2015 and 2014 is as follows:

	2015	2014
Written off the balance sheets in their entirety:	-	-
Mortgage assets securitised through mortgage bond holdings	-	-
Memorandum item: Written off the balance sheet: before 1 January 2004	-	-
Carried in the balance sheet in their entirety:	900,673	1,007,156
Mortgage assets securitised through mortgage transfer certificates	858,676	945,466
Other securitised assets	41,997	61,690
	900,673	1,007,156

In previous years, the Group carried out a number of asset securitisation schemes transferring assets comprising mortgage and corporate loans to the securitisation funds "I.M. Caja Laboral 1, F.T.A.", "I.M. Caja laboral 2, F.T.A. and "I.M. Caja Laboral Empresas 1, F.T.A." for €900 million, €600 million and €294.5 million, respectively. These asset transfers did not meet the requirements laid down by the International Financial Reporting Standards for the derecognition of the transferred assets, since the Parent Entity retains the risks and rewards associated with ownership of the assets and also maintains control over them. As a result, a liability associated with the net assets transferred to the "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." funds has been recognised.

The outstanding balance of these assets at 31 December 2015 stood at €900,673k (€1,007,156k at year-end 2014). 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 2015, the Parent Entity has extended the abovementioned asset securitisation funds subordinated loans in the amount of €53,846k (€56,703k at 31 December 2014).

(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 2015 and 2014 (Note 59) is as follows:

	2015	2014
Loans	2,380	31,117
Appropriations	147,493	205,989
Doubtful loans recovered	(4,513)	(9,601)
Other loans recovered	(140,600)	(165,271)
	2,380	31,117
Appropriations charged to income	147,493	205,989
Determined individually	147,430	198,788
Determined collectively	63	7,201
Appropriations recovered taken to income	(140,600)	(165,271)
Suspense account items recovered	(4,513)	(9,601)
	2,380	31,117

The breakdown at 31 December 2015 and 2014 of the balance of Value Adjustments in respect of asset impairment under Credits, loans and discounts, is as follows:

	2015	2014
By type of cover:		
Specific cover	526,810	614,147
Complementary cover	87,959	119,461
	614,769	733,608
By manner of determination:		
Determined individually	526,810	614,147
Determined collectively	87,959	119,461
	614,769	733,608
By counter-party:		
Other resident sectors	614,501	733,293
Other non-resident sectors	268	315
	614,769	733,608

The specific hedge balance at 31 December 2015, includes €20,709k (€24,095k at 31 December 2014) intended to adjust the value of certain customer credit transactions totalling €120,420k (€143,110k at 31 December 2014). 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.

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(Expressed in €' 000)

Movements during 2015 and 2014 of the balance of Measurement Adjustments in respect of asset impairment under Credits, loans and discounts, is as follows:

	Specific cover	Complementary cover	Total
Balance at beginning of 2013	753,437	158,637	912,074
Net appropriations against income	198,788	7,201	205,989
Recoveries	(118,894)	(46,377)	(165,271)
Transfer to doubtful loans against funds set up	(180,806)	-	(180,806)
Other	(38,378)	-	(38,378)
Balance at year-end 2014	614,147	119,461	733,608
Net appropriations against income	147,430	63	147,493
Recoveries	(109,035)	(31,565)	(140,600)
Transfer to doubtful assets against funds set up	(108,431)	-	(108,431)
Other	(17,301)	-	(17,301)
Balance at year-end 2015	526,810	87,959	614,769

During 2015 and 2014 the item "Other" mainly reflects the reclassification of the specific provision on the funding extended to Grupo Fomenclar to "Non-current assets for sale" in the amount of €17,467k and €53,431k, respectively (Note 29).

The amount of cumulative financial income not recognised in the consolidated income statement relating to impaired financial assets totals €124,109k and €129,142k, at 31 December 2015 and 2014, respectively, Set out below is a breakdown of the carrying value of impaired assets, without deduction of value adjustments for impairment:

(Expressed in €' 000)

	2015	2014
By geographical area:		
- Bizkaia	262,800	407,068
- Gipuzkoa	249,231	211,217
- Araba	86,608	117,518
- Navarra	147,228	178,653
- Expansion network	283,529	326,032
- Not classified	5,720	6,772
	1,035,116	1,247,260
By counter-party:		
- Spanish Public Administrations	7,600	78
- Other resident sectors	1,027,280	1,246,771
- Other non-resident sectors	236	411
	1,035,116	1,247,260
By type of instrument:		
- Commercial loans	51,389	48,735
- Loans and credits	931,994	1,134,665
- Finance leases	24,908	32,055
- Remainder	26,825	31,805
	1,035,116	1,247,260

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

	2015	2014
Up to 6 months	511,451	638,559
Over 6 months without exceeding 9 months	52,764	66,699
Over 9 months without exceeding 12 months	40,634	58,769
Over 12 months	430,267	483,233
	1,035,116	1,247,260

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

	2015	2014
Up to 1 month	15,638	2,918
Between 1 month and 2 months	5,040	5,367
Between 2 months and 3 months	1,057	1,357
	21,735	9,642

A breakdown is provided below at 31 December 2015 and 2014 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:

	2015	2014
Customer loans	377,051	311,372
	377,051	311,372

(Expressed in €' 000)

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

	2015	2014
Balance at the beginning of the year	311,372	178,988
Additions:	114,880	180,825
Value adjustment for asset impairment	114,880	180,825
Recoveries:	(4,539)	(9,601)
Due to collection in cash of principal	(4,539)	(9,601)
Definitive write-offs:	(44,662)	(38,840)
Condoned	(44,662)	(38,840)
Balance at the end of the year	377,051	311,372

At 31 December 2015 and 2014, write-offs due to remissions amounted to €44,662 thousand and €38.840 thousand, respectively. During 2014, this figure mainly relates to the sale of non-performing loans to third parties for €43,416 thousand, generating a profit of €3,474 thousand.

27. Held to maturity investments

Set out below is a breakdown of this heading in the balance sheets at 31 December 2015 and 2014:

	2015	2014
Spanish public debt	413,697	419,203
Treasury Bills	-	-
Other book-entry debt instruments	413,697	419,203
Other Spanish Public Administrations debt	-	-
Foreign public debt	9,209	10,790
French public debt	3,817	5,365
German public debt	4,583	4,603
Dutch public debt	809	822
Bonds and debentures	668,279	1,230,179
Issued by credit institutions	668,279	1,053,713
Residents	653,162	1,032,098
Non-residents	15,117	21,615
Issued by Other sectors	-	176,466
Residents	-	176,466
Non-residents	-	-
Measurement adjustments for asset impairment	-	-
Microhedge transactions	51,529	58,842
	1,142,714	1,719,014

(Expressed in €' 000)

The breakdown by currency, maturity date in the listed price of the Held-to-maturity investment portfolio in the balance sheets at 31 December 2015 and 2014, without taking into consideration Measurement adjustments for asset impairment, is as follows:

	2015	2014
By currency:		
In Euro	1,142,714	1,719,014
	1,142,714	1,719,014
By maturity:		
Up to 1 year	17,011	16,293
Between 1 and 5 years	732,685	1,303,717
Over than 5 years	341,489	340,162
Measurement adjustments	51,529	58,842
	1,142,714	1,719,014
By ratings:		
Risks classified as Rating A	66,820	67,896
Risks classified as Rating B	1,075,894	1,651,118
Amounts not assigned	-	-
	1,142,714	1,719,014

Movements in 2015 and 2014 in the Held-to-maturity investment portfolio are set out below:

	2015	2014
Balance at beginning of the year	1,719,014	2,655,552
Additions due to purchases	1,316	15,172
Amortizations	(557,355)	(984,426)
Microhedge transactions	(7,313)	34,257
Collected interests	(60,873)	(32,466)
Apportionment of interest	47,925	30,925
Impairment losses (Note 59)	-	-
Balance at the end of the year	1,142,714	1,719,014

The average interest rate during 2015 and 2014 for held-to-maturity investments in the banking business was 4.243% and 3.447%, respectively. Average annual yields in 2015 and 2014 in the held-to-maturity investment portfolio in the insurance business stood at 3.93% and 3.73%, respectively.

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

(Expressed in €' 000)

The quantifiable fair value of the items included under the heading Investment portfolio held to maturity at 31 December 2015 and 2014, as well as the measurements techniques applied, are set out in Note 43.

In 2015, €505 million was amortised upon maturity and used to repay part of the amount obtained in the ECB LTRO auction.

At 31 December 2015 and 2014, the Parent Entity maintains a fair value hedging on the State Bonds, included in the investment portfolio with nominal maturity amounting to €200,000k. This hedge was performed through contracting OTC financial swaps on interest rates with non-resident credit entities, the fair value of which at 31 December 2015 and 2014, amount (€51,529k) and (€58,842k), respectively.

28. Derivatives held for hedging

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2015 and 2014:

	Assets		Liabilities	
	2015	**2014**	**2015**	**2014**
Micro-hedges:	232,753	303,066	114,798	133,082
Fair value hedges	232,583	302,857	114,798	133,082
Cash flow hedges	170	209	-	-
	232,753	303,066	114,798	133,082

The breakdown by currency and maturity of asset and liability hedging derivatives in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	Assets		Liabilities	
	2015	**2014**	**2015**	**2014**
By currency:				
In Euro	232,753	303,066	114,798	133,082
	232,753	303,066	114,798	133,082
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	12,837	-	-	-
Between 3 months and 1 year	12,712	15,697	-	3,222
Between 1 and 5 years	93,498	66,802	12,427	-
Over 5 years	113,706	220,567	102,371	129,860
	232,753	303,066	114,798	133,082

(Expressed in €' 000)

The balance of hedging derivatives on the asset and liability sides of the consolidated balance sheets at 31 December 2015 and 2014 breaks down as follows:

	2015		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate operations			
Financial swaps	2,886,657	232,753	114,798
Other share operations			
Financial swaps	-	-	-
		232,753	114,798

	2014		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate operations			
Financial swaps	3,565,128	303,066	133,082
Other share operations			
Financial swaps		-	-
		303,066	133,082

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.

At 31 December 2015 and 2014, the purpose of hedging instruments arranged at said dates is to cover interest rate risk to which certain financial liabilities are amortised cost are subject, mainly mortgage secured bonds with a nominal value of €1,725 million and €2,225 million, respectively (Note 36) and certain debt instruments, mainly Government Bonds, with a nominal value of €425 million and €550 million, respectively (Notes 25 and 27).

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.

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29. Non-current assets for sale

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Property, plant and equipment	354,765	338,102
Property, plant and equipment for own use	15,945	17,736
Investment properties	11,923	10,588
Property, plant and equipment foreclosed	892,935	885,164
Measurement adjustments for asset impairment	(566,038)	(575,386)
	354,765	338,102

Movements during 2015 and 2014 under in Non-current assets for sale are as follows:

	2015	2014
Individualised items:		
Balance at the beginning of the year	338,102	325,877
Additions	68,047	94,339
Disposals	(75,205)	(105,179)
Balances due to business combination (Note 68)	-	7,269
Net impairment charges (Note 62)	24,914	2,278
Transfers to inventories	(1,093)	16,570
Transfers to PPE (Note 32)	-	(3,052)
Transfers to write-off assets		
	354,765	338,102

The breakdown of impairment losses on Non-current assets for sale, booked in the consolidated income statements of the years ended 31 December 2015 and 2014 is shown below (Note 62):

	2015	2014
Property, plant and equipment	24,914	(2,278)
Other assets	-	-
	24,914	(2,278)
Appropriations charged to income	24,914	(2,278)
	24,914	(2,278)

(Expressed in €' 000)

The movement in 2015 and 2014 in Value Adjustments due to asset impairment under non-current available-for-sale assets is as follows:

	2015	2014
Balance at beginning of the year	575,386	510,189
Net appropriations against income	(24,914)	(2,278)
Additions due to business combination (Note 68)	-	57,823
Transfers to inventories (Note 35) and credit investments (Note 26)	17,467	53,431
Transfers to written off assets against recognised impairment provisions	(1,901)	(43,779)
Other	-	-
	566,038	575,386

The movement in Measurement Adjustments for asset impairment under Non-current available-for-sale assets at 31 December 2015 and 2014 is as follows:

	2015	2014
Individualized items	566,038	575,386
	566,038	575,386

30. Shareholdings

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Associates:		
Net value	3,091	3,284
Cost	3,091	3,284
Value adjustments for asset impairment	-	-
Jointly-controlled entities:		
Net value	-	-
Cost	-	-
Value adjustments for asset impairment	-	-
	3,091	3,284

Movements in 2015 and 2014 in the balance of Shareholdings are as follows:

	2015	2014
Balance at start of the year	3,284	3,253
Acquisitions	-	-
Disposals due to sale	-	-
Disposals due to capital redemption	(216)	-
Profit sharing (Note 49)	83	23
Provision for impairment (Note 60)	(23)	(3)
Share of valuation gains/(losses)	-	-
Dividend payment	(37)	-
Other	-	11
Balance at year end	3.091	3.284

(Expressed in €' 000)

Appendix I includes significant information on shareholdings in Jointly-controlled entities and Associates and Subsidiaries which have been consolidated under the full consolidation method at 31 December 2015 and 2014.

31. Assets held for reinsurance

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Technical provision for unconsumed premiums	11,468	11,179
Life insurance technical reserves	1,263	1,276
Technical reserves for claims	12,467	12,698
	25,198	25,153

32. Property, plant and equipment

Set out below is a breakdown of these heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Property, plant and equipment	317,842	336,652
For own use:	306,625	325,042
Data processing equipment and installations	8,425	7,629
Furnishings, vehicles and other installations	30,245	30,651
Buildings	307,497	316,738
Work in progress	1,217	-
Other	9	907
Impairment losses	(40,768)	(30,883)
Assigned under operating lease	10,426	10,789
Associated with Community Projects	791	821
Furniture and installations	3	3
Buildings	788	818
Real estate investments	61,829	68,581
Buildings	72,315	68,145
Rural properties, land and plots	1,349	1,863
Impairment adjustments	(11,835)	(1,427)
	379,671	405,233

(Expressed in €' 000)

The movement in 2015 and 2014 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 2014	717,143	25,603	2,135	46,161	791,042
Additions	12,827	5,268	-	24	18,119
Disposals	(33,075)	(9,320)	-	(1,520)	(43,915)
Transfers	(45,071)	-	-	45,071	-
Transfers to non-current assets for sale	(15,947)	(3,415)	-	(724)	(20,086)
Balance at 31 December 2014	635,877	18,136	2,135	89,012	745,160
Additions	14,265	4,574	-	699	19,538
Disposals	(62,434)	(4,539)	-	(4,301)	(71,274)
Transfers	(3,238)	-	-	3,238	-
Transfers to non-current assets for sale	(2,255)	-	-	3,222	967
Balance at 31 December 2015	582,215	18,171	2,135	91,870	694,391
Accumulated amortization					
Balance at 1 January 2014	303,929	9,843	1,281	12,943	327,996
Charges	16,609	3,649	33	551	20,842
Disposals	(31,834)	(6,145)	-	(42)	(38,021)
Transfers	(5,236)	-	-	5,236	-
Transfers to non-current assets for sale	(3,516)	-	-	-	(3,516)
Others	-	-	-	316	316
Balance at 31 December 2014	279,952	7,347	1,314	19,004	307,617
Charges	15,360	3,709	30	927	20,026
Disposals	(61,621)	(3,311)	-	(433)	(65,365)
Transfers	2,073	-	-	(2,073)	-
Transfers to non-current assets for sale	(924)	-	-	798	(126)
Others	(18)	-	-	(17)	(35)
Balance at 31 December 2015	234,822	7,745	1,344	18,206	262,117
Value adjustments owing to asset impairment					
Balance at 1 January 2014	**(31,257)**	-	-	**-**	**(31,257)**
Additions (Note 60)	(70)	-	-	(779)	(849)
Decreases	-	-	-	-	-
Transfers	-	-	-	-	-
Others	444	-	-	(648)	(204)
Balance at 31 December 2014	**(30,883)**	-	-	**(1,427)**	**(32,310)**
Additions (Note 60)	(9,800)	-	-	(10,200)	(20,000)
Decreases	-	-	-	-	-
Transfers	-	-	-	-	-
Others	(85)	-	-	(208)	(293)
Balance at 31 December 2015	**(40,768)**	-	-	**(11,835)**	**(52,603)**
Net					
Balance at 31 December 2014	**325,042**	**10,789**	**821**	**68,581**	**405,233**
Balance at 31 December 2015	**306,625**	**10,426**	**791**	**61,829**	**379,671**

(Expressed in €' 000)

During 2015 tangible assets with a gross carrying value of €61,092 thousand have been derecognised which mainly relate to refurbishment work by the Parent Entity on its head office for €58,157 thousand (zero in 2014) and the sale of two offices for its own use totalling €792 thousand euros, as well as various offices classified as for sale or for let amounting to €2,134 thousand for subsequent sale or leasing.

During 2015 transfers have been made from Property, plant and equipment for own use and Non-current assets held for sale to Investment properties for a carrying value of €8,129 thousand (€21,510 thousand in 2014) relating to 26 offices (41 offices in 2014) that have been leased to third parties during 2015.

The heading Property, plant and equipment for own use on the consolidated balance sheets at 31 December 2015 and 2014 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
At 31 December 2015				
Data processing equipment and installations	54,339	(45,914)	-	8,425
Furnishings, vehicles and other installations	165,129	(134,884)	-	30,245
Buildings	360,592	(53,095)	(40,768)	266,729
Work in progress	1,217	-	-	1,217
Other	938	(929)	-	9
	582,215	(234,822)	(40,768)	306,625
At 31 December 2014				
	48,906	(41,277)	-	7,629
Data processing equipment and installations	209,440	(178,789)	-	30,651
Furnishings, vehicles and other installations	367,982	(51,244)	(30,883)	285,855
Buildings	-	-	-	-
Work in progress	9,549	(8,642)	-	907
	635,877	(279,952)	(30,883)	325,042

The fair value of Property, plant and equipment for own use and under construction is included in Note 43 to the annual accounts.

The net balance at 31 December 2015 and 2014 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 2015 and 2014 amounts to approximately €142,794k and €190,482k, respectively.

(Expressed in €' 000)

The balance of Investment properties in the consolidated balance sheets at 31 December 2015 and 2014 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
At 31 December 2015				
Buildings	90,521	(18,206)	(11,835)	60,480
Rural properties, land and plots	1,349	-	-	1,349
	91,870	(18,206)	(11,835)	61,829
At 31 December 2014				
Buildings	87,149	(19,004)	(1,427)	66,718
Rural properties, land and plots	1,863	-	-	1,863
	89,012	(19,004)	(1,427)	68,581

The fair value of Investment properties is indicated in Note 43 to the annual accounts.

Net operating income from the Group's Investment properties during 2015 and 2014 amounted to approximately €2,582 and €1,965k, respectively.

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 2015 and 2014:

	Gross	Accumulated amortization	Net
At 31 December 2014			
Machinery	4,475	(2,114)	2,361
Furnishings and fixtures	47	(13)	34
Buildings	-	-	-
Computer hardware	8,446	(3,795)	4,651
Medical equipment	-	-	-
Vehicles	4,759	(1,747)	3,012
Other	444	(76)	368
	18,171	(7,745)	10,426
At 31 December 2013			
Machinery	5,264	(2,379)	2,885
Furnishings and fixtures	13	(6)	7
Buildings	-	-	-
Computer hardware	7,881	(3,676)	4,205
Medical equipment	13	(11)	2
Vehicles	4,823	(1,244)	3,579
Other	142	(31)	111
	18,136	(7,347)	10,789

(Expressed in €' 000)

Income from rent from Assets assigned under operating leases by the Group in 2015 and 2014 amounted to approximately €4,777k and €4,886k, respectively. Operating expenses of all kinds corresponding to Assets assigned under operating leases by the Group in 2015 and 2014 amounted to approximately €487k and €527k, respectively. (Note 54).

At 31 December 2015 and 2014, the Group had the following commitments in relation to its Property, plant and equipment:

- The Group leases certain properties for which it paid rent of €6,609 thousand and €18,404 thousand in 2015 and 2014, respectively (Note 56.b). At 31 December 2015 and 2014, the average remaining term of the lease agreements was 14 years.

33. Intangible assets

The breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	2015	2014
Goodwill	33,425	33,425
Other intangible assets	66	103
With undefined useful life	66	103
Amortised cost	66	103
Value adjustments for asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	33,491	33,528

The breakdown of the balance in Goodwill in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	2015	2014
Seguros Lagun Aro, S.A.		
Gross	33,425	33,425
Impairment corrections	-	-
	33,425	33,425

(Expressed in €' 000)

To 20 December 2011, the Group held a direct 36.05% stake and an indirect 4.94% stake in Seguros Lagun Aro, S.A. At that date, acquired the remaining 59.01% of Seguros Lagun Aro, S.A. to acquire full control of this company, which operates as a risk insurer in the main non-life insurance lines, in which coverages are legally stipulated for each line.

Goodwill of €33,425 thousand arising on the acquisition is attributable to the customer base acquired and to the economies of scale that will foreseeably be generated by combining the Group's operations with those of Seguros Lagun Aro, S.A.

On the basis of the estimates and projections held by the Parent Entity's Directors, forecast income attributable to the Group from the investee entities that generated the goodwill is sufficient to cover the carrying amount of the goodwill.

Without taking into account the corrections for impairment of the assets, the movement of the balance in Goodwill during 2015 and 2014 was as follows:

	2015	2014
Opening balance	33,425	33,425
Movements due to modifications in the consolidation scope for business combinations.	-	-
	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 2015 and 2014.

Macroeconomic assumptions and interest rates used in the evaluation of goodwill impairment are as follows.

The lower growth forecast for the economy is related to the weakness of emerging economies, particularly Brazil. In this respect, of the major euro zone economies the Spanish economy has the highest exposure to Latin America. The softening of the positive impact of some factors that have supported the banking business recently, such as fiscal policy or more relaxed financing conditions, has also contributed to a weaker growth dynamic. In any event, domestic demand will continue to be the main source of economic growth and this will be favoured by the improved financial situation of private agents. The main risk on a domestic level will be political, due to a more difficult governance scenario.

Inflation will remain on very low levels, affected by energy prices. In addition, it will remain below the euro zone average because of the higher excess production capacity in Spain.

Concerning the goodwill resulting from the business combination consisting of the acquisition of assets from Seguros Lagun Aro, S.A., at the close of 2015 and 2014 the Group carried out an assessment of whether there were any indications of impairment to that goodwill and estimated the recoverable value. As the recoverable amounts are higher than their respective carrying amounts, no impairment has been recognised.

The value was calculated by discounting future distributable net profits from the business carried on by the insurance company for a five-year projection period (to 2020, plus a calculation of its terminal value applying a 1% perpetuity growth rate). The key variables on which the financial projections were built are the evolution of the gross margin from direct insurance (conditioned by expected business volumes and interest rates) and the evolution of the other income statement items and of solvency levels.

The present value of the flows to be distributed, used to calculate value in use, was calculated applying as a discount rate the cost of capital (Ke) of Seguros Lagun Aro, S.A. from the viewpoint of a market participant. It was determined using the CAPM (Capital Asset Pricing Model).

On the basis of this method, a discount rate of 7.97% was applied.

Annualised growth rates used in the forecast period (CAGR) for earned premiums have ranged from 1.0% and 4.6%, and for technical insurance expenses they stand at 12.8% in 2016, derived from the application of the new loss scale in the insurance business that comes into effect on 1 January 2016. For subsequent years, the projected growth rate is between 0.1% and 4.5%.

At 31 December 2015 and 2014, sensitivity analyses were conducted of the key valuation variables, and it was concluded that there was no evidence of impairment.

Under current tax legislation, at 31 December 2015 and 2014, generated goodwill is not tax deductible.

(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 2015 and 2014:

	Assets		Liabilities	
	2015	**2014**	**2015**	**2014**
Current taxes:	14,573	15,758	5,228	7,245
Corporate income tax	1,450	3,133	5,228	6,802
VAT	10,030	9,364	-	443
Withholdings refundable/payable	3,093	3,261	-	-
Other	-	-	-	-
Deferred taxes:	301,522	307,072	125,263	137,047
Measurement adjustments available- for- sale portfolio	24,743	21,619	78,986	88,783
Fixed asset restatement	-	-	39,214	39,214
Opening fees	120	319	-	-
Tax credits	223,487	221,175	-	-
Reinvestment in fixed assets	-	-	-	-
Provision for pensions and similar obligations	7,246	9,880	-	-
Provision for bad debts and other provisions	42,505	36,145	-	-
Depreciation and amortisation	-	-	-	-
Impairment of shareholdings	-	-	-	-
Revaluation of own financial liabilities mortgage bonds	-	-	5,030	6,984
Deposit Guarantee Fund	-	14,552	-	-
Other items	3,421	3,382	2,033	2,066
	316,095	322,830	130,491	144,292

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2015 and 2014 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 2015 and 2014 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2015	**2014**	**2015**	**2014**
Balance at 1 January	307,072	317,853	137,047	120,111
Increases / (decreases)	(5,550)	(10,781)	(11,784)	16,936
Bad-debt provision and other provisions	6,360	19,936	-	-
Fixed-asset reinvestment	-	-	-	-
Measurement adjustments – AFS portfolio	3,124	1,543	(9,797)	17,339
Fixed-asset revaluation	-	-	-	(356)
Opening fees	(199)	(189)	-	-
Tax credits	2,312	(31,220)	-	-
Provision for pensions and similar obligations	(2,634)	967	-	-
Deposit Guarantee Fund	(14,552)	-	-	-
Other	39	(1,818)	(1,987)	(47)
At 31 December	301,522	307,072	125,263	137,047

Deferred tax assets for tax losses and tax credits pending offset are recognised to the extent that it is probable that future taxable profits will be generated in the coming 10 years against which they may be offset. At 31 December 2015, the Parent Entity recognises deferred tax assets for the above-mentioned items in the amount of €197.570k and €25,917k, respectively (€197,107k and €24,068k, respectively at 31 December 2014), which are expected to be offset in future periods against taxable income, as per the annual Management Plans prepared by Management.

Pursuant to Final Provision Two of Royal Decree Law 14/2013 on urgent measures for the adaptation of Spanish law to the European Union regulations on the supervision and solvency of financial institutions and its inclusion in regional legislation in accordance with Regional Regulation 17/2014 of the Gipuzkoa Regional Government, the Group has deferred tax assets that may be converted into credits enforceable against the tax administration for an estimated amount of €197 million (€212 million at 31 December 2014).

Note 42 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 2015 and 2014:

	Assets		Liabilities	
	2015	2014	2015	2014
Inventories	3,441	2,391	-	-
Time-apportionment of accrued fees	24,200	32,318	-	-
Other accrual items	32,747	29,321	58,575	92,716
Transactions in progress	349	360	65	194
Credits for direct insurance operations and other credits	10,355	10,154	-	-
Commercial creditors and other accounts payable	-	-	13,182	8,062
Other items	-	-	6,342	8,911
	71,092	74,544	78,164	109,883

As mentioned in Note 10, at 31 December 2015 and 2014 the heading "Other assets – other accrual items" includes €24,660 thousand and €28,182 thousand, respectively, relating to the contribution to be made to the Deposit Guarantee Fund under Royal Decree-Law 2/2012, of 03 February. In addition, the heading "Other liabilities – other accrual items" includes the payment pending to the Deposit Guarantee Fund at 31 December 2015 and 2014 for the extraordinary contribution provided for under Royal Decree-Law 6/2013 amounting to €10,484 thousand and € 20,961 thousand, respectively.

36. Financial liabilities at amortised cost

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Deposits from central bank	-	3,146,846
Deposits by credit institutions	262,856	362,369
Customer funds	18,282,763	17,956,928
Marketable debt securities	166,333	345,534
Other financial liabilities	160,332	180,538
	18,872,284	21,992,215

(Expressed in €' 000)

The breakdown by currency and maturity of financial liabilities at amortised cost in the consolidated balance sheets at 31 December 2015 and 2014 is as follows:

	2015	2014
By currency:		
In Euro	18,845,271	21,970,525
In US dollars	25,196	20,445
In pounds sterling	1,108	536
In Swiss francs	198	141
In Japanese yen	202	284
Other	309	284
	18,872,284	21,992,215
By maturity:		
Demand deposits	11,204,408	8,773,195
Up to 1 month	1,867,756	1,104,435
Between 1 month and 3 months	1,543,054	983,815
Between 3 months and 1 year	3,177,863	7,849,785
Between 1 and 5 years	637,914	1,447,480
Over 5 years	187,745	1,431,547
No set maturity	-	-
Measurement adjustments	253,544	401,958
	18,872,284	21,992,215

a) Central bank deposits

The balance of Deposits by central banks in the consolidated balance sheets at 31 December 2015 and 2014 breaks down as follows:

	2015	2014
Bank of Spain	-	3,100,000
Measurement adjustments	-	46,846
	-	3,146,846

As mentioned in Note 16, in accordance with the active financing and liquidity monitoring policy of the Parent Entity, during 2012 it took part in the liquidity auctions announced by the European Central Bank in February and March 2012. At 31 December 2014 the Parent Entity recorded several deposits with the European Central Bank for a total amount of €3,100 million, all maturing in 2015. Accordingly, at 31 December 2015, the Parent Entity has no deposits with the European Central Bank.

The average rates of interest per annum on Deposits by Central Bank in 2015 and in 2014 were 0.07 and 0.17%, respectively.

The limits assigned by the Bank of Spain to the Parent Entity at 31 December 2015 within the credit system secured by public funds totalled €1,637,172k (€4,178,300k at 31 December 2014).

(Expressed in €' 000)

b) Deposits by credit institutions

The balance of Deposits by credit institutions in the consolidated balance sheets at 31 December 2015 and 2014 breaks down as follows:

	2015	2014
Fixed-term deposits	30,387	63,207
Repurchase agreements	-	-
Other accounts	232,357	298,940
Measurement adjustments	112	222
	262,856	362,369

The average rates of interest per annum on Deposits by credit institutions in 2015 and in 2014 were 0.30% and 0.46% respectively.

At 31 December 2015 and 2014, under the heading "Other accounts" the amounts of €232,357k and €298,940k, 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 2015 and 2014:

	2015	2014
Spanish Public Administrations	168,252	268,204
Assets sold under repo agreements with counterparties	339,231	-
Other resident sectors:	17,716,568	17,633,830
Demand deposits	9,722,611	8,212,003
Current accounts	2,717,208	2,227,473
Savings deposits	6,984,464	5,963,424
Other	20,939	21,106
Fixed- term deposits:	6,572,932	8,649,855
Time deposits	6,460,318	8,203,836
Other	112,614	446,019
Repurchase agreements	1,167,716	417,694
Measurement adjustments	253,309	354,278
Interest accrued	57,774	87,701
Micro-hedging	195,535	266,577
Other non-resident sectors	58,712	54,894
	18,282,763	17,956,928

Average rates of interest per annum during 2015 and 2014 on Customer funds may be broken down by product as follows:

	2015	2014
Demand deposits	0.19%	0.41%
Fixed- term deposits	1.85%	2.21%
Repurchase agreements	0.51%	0.78%

At 31 December 2015 the Parent Entity records creditor balances with cooperatives, other associates and investment funds managed by the Group amounting to €903,939k (€684,664k in 2014).

At 31 December 2015, the balance sheet heading "Fixed-term deposits – Other" records €1,825 million (€2,425 million at 31 December 2014) 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	2015	2014	Maturity date
Cédulas TDA3, Fondo de Titulización de Activos	03-03-04	300,000	300,000	01-03-16
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	02-12-15
IM Cédulas 7, Fondo de Titulización de Activos	31-03-06	625,000	625,000	31-03-21
IM Cédulas 9, Fondo de Titulización de Activos	09-06-06	300,000	300,000	09-06-16
		1,825,000	2,425,000	

The annual nominal interest rate of the bonds issued at 31 December 2015 and 2014 ranges between 3.50% and 4.39% in both years. The heading Other resident sectors - valuation adjustments at 31 December 2015 includes €195,535 thousand (€266,577 thousand at 31 December 2014) which mainly relates to changes in the fair value of mortgage secured bonds attributable to interest rate risk for which hedging has been arranged, as described in Note 28.

In Laboral Kutxa's capacity as issuer of mortgage bonds and in compliance with the provisions of article 21 of Royal Decree 716/2009 (of 24 April) and Bank of Spain Circular 7/2010 (of 30 November), note 66 to these annual consolidated financial statements includes the information regarding the special accounting treatment applicable to issuers of covered and mortgage bonds.

(Expressed in €' 000)

Set out below is a breakdown by currency and maturity of the balance of Customer funds in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
By currency:		
In Euro	18,255,750	17,935,238
In US dollars	25,196	20,445
In pounds sterling	1,108	536
In Swiss francs	198	141
In Japanese yen	202	284
Remainder	309	284
	18,282,763	17,956,928
By maturity:		
Demand deposits	10,970,519	8,474,244
Up to 1 month	1,726,928	936,030
Between 1 month and 3 months	1,529,435	972,703
Between 3 months and 1 year	3,165,813	4,732,435
Between 1 and 5 years	625,600	1,346,587
Over 5 years	11,036	1,140,281
	18,029,331	17,602,280
Measurement adjustments	253,432	354,648
	18,282,763	17,956,928

d) Marketable debt securities

Set out below is a breakdown of the balance of debt securities in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Promissory notes and bills	-	-
Other inconvertible securities	-	-
Mortgage- backed securities	1,716,333	1,745,292
Measurement adjustments	(1,550,000)	(1,400,000)
Promissory notes and bills	-	242
	166,333	345,534

Mortgage- backed securities

During the year 2006 the Group contributed certain mortgage loans to the Securitisation fund "I.M. Caja Laboral 1, F.T.A.". Likewise, during 2008 and 2011 the Group contributed certain loans to the securitisation funds "I.M. Caja Laboral 2, F.T.A." and "I.M. Caja Laboral Empresas 1, F.T.A.", respectively for the issue of securitisation bonds, which were totally subscribed by the Group. It is the Group's intention to use these subscribed bonds as guarantee in credit operations with the Eurosystem.

(Expressed in €’ 000)

At 31 December 2015 the securitisation bonds issued through the “I.M. Caja Laboral 1, F.T.A.” fund subscribed by third parties amounted to €166,333 thousand (€195,292 thousand at 31 December 2014). These bonds mature in October 2049, for the securitisation fund “I.M. Caja Laboral 1, F.T.A, and bear annual interest at the Euribor plus a mark-up between 0.15% and 0.21%.

At 31 December 2014, this heading also included €150 million corresponding to the par value of two unique mortgage-backed securities issues due in 2019 and 2020 that were bought in full by the European Investment Bank (EIB).

During 2015, the Parent Entity executed the purchase option granted to the issuer of the mortgage secured bonds as a result of the repayment of the financing obtained from the European Investment Bank. Therefore, at 31 December 2015 no balance is reflected under this heading as the nominal value of these mortgage secured bonds is included under "Own securities".

The yield on the securities subscribed by the European Investment Bank maturing in 2020 and 2019 was determined by means of a variable interest rate on the nominal value indexed to the 3-month Euribor plus a margin of 5.50% and 3.35% payable quarterly, respectively.

During 2012, the Parent Entity issued covered bonds with a value of €1,400 million maturing in 2016 and 2017 which have been retained in full and recorded under “Own securities” to serve as collateral in the obtention of rediscounting facilities with the European Central Bank.

Movements in 2015 and 2014 in Marketable debt securities are set out below:

	2015	2014
Balance at the beginning of the year	345,534	377,171
Issues	-	-
Amortisation	(178,959)	(31,596)
Own securities of the Group	-	-
Valuation adjustments	(242)	(41)
Balance at the end of the year	166,333	345,534

The breakdown of interest accruing on debts represented by Group securities at 31 December 2015 and 2014 is as follows (note 47):

	2015	2014
Debts represented by negotiable securities	1,247	3,105
Promissory notes and bills	-	-
Other convertible securities	-	-
Mortgage securities	1,247	3,105
	1,247	3,105

(Expressed in €' 000)

37. Insurance contract liabilities

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:
:

	2015	2014
Life insurance technical reserves:	458,961	446,754
Unearned premium and unexpired risk reserves:	65,731	65,295
Direct insurance	65,731	65,295
Mathematical reserves	393,230	381,459
Direct insurance	393,230	381,459
Technical reserves for life insurance when the investment risk is assumed by policyholders:	369	717
Direct insurance	369	717
Technical reserves for claims:	73,776	74,232
Direct insurance	73,776	74,232
Technical reserves for share in gains and returned premiums:	198	234
Direct insurance	198	234
Deposits received in respect of ceded reinsurance	-	-
	533,304	521,937

38. Provisions

Set out below is a breakdown of this heading in the balance sheets at 31 December 2015 and 2014:

	2015	2014
Retirement benefit obligations	25,879	35,109
Other pension provisions	25,879	35,109
Provisions for taxes and other contingencies	-	162
Provisions for taxes	-	162
Provisions for contingent exposures and commitments	31,187	31,840
Provision for contingent risks	31,187	31,840
Other provisions	145,590	117,472
	202,656	184,583

(Expressed in €' 000)

Movements in Provisions during 2015 and 2014 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 2014					
Balance at the beginning of the year	31,659	4,144	26,686	52,174	114,663
Appropriation against income:					
Appropriations to provisions	13,309	162	27,512	64,908	105,891
Available provisions	-	-	(11,834)	-	(11,834)
Recoveries	-	-	(13,404)	(5)	(13,409)
Utilisation of funds	(9,859)	(4,144)	-	(9,983)	(23,986)
Other movements	-	-	2,880	10,378	13,258
Balance at the end of the year	35,109	162	31,840	117,472	184,583
At 31 December 2015					
Balance at the beginning of the year	35,109	162	31,840	117,472	184,583
Net appropriation against income:					
Appropriations to provisions	2,481	-	26,517	36,968	65,966
Available provisions	-	-	(12,000)	(5,800)	(17,800)
Recoveries	-	(162)	(15,295)	(453)	(15,910)
Utilisation of funds	(11,711)	-	-	(13,439)	(25,150)
Other movements	-	-	125	10,842	10,967
Balance at the end of the year	25,879	-	31,187	145,590	202,656

a) Retirement benefit obligations

At 31 December 2015 and 2014, the Parent Entity had entered into future commitments with some employees derived from the voluntary agreement to adhere to the "Plan de dinamización de plantillas II" ("Dynamic Payroll Plan II"). Consequently, the Parent Entity has recorded provisions to cover commitments for serving personnel accruing since the date of implementation of the scheme to the date on which they cease their employment with the Parent Entity for the salary supplements and other welfare charges that they will receive until its employees' actual retirement.

The present value of the commitments entered into by the Parent Entity relating to post-employment remuneration and the way in which these commitments were covered are as set out below:

	2015	2014
Commitments entered into	25,879	35,109
	25,879	35,109
Hedges		
Internal funds	25,879	35,109
	25,879	35,109

(Expressed in €' 000)

On 31 December 2015 and 2014 future flows of benefits were measured regarding the cover of the commitments for post-employment compensation using the projected credit unit method of calculation and taking the retirement age of each employee to be the earliest date on which he becomes entitled to retire.

The financial-actuarial assumptions used in the actuarial valuation are set out below:

	2015	2014
Discount rate	0.25%	0.30%
Mortality tables	PERMF2000P	PERMF2000P
Growth in advance gross future consumption	0.0%	0.5%
Growth in benefits	0.0%	1.5%
Retirement age	2.0%	2.0%
Discount rate	Earliest possible age	Earliest possible age

The discount rate applied to the commitments was determined on the basis of the duration of the commitment – 1.3 years – and the reference curve was calcuated based on the Euro Denominated Corporate Bonds AA curve at 31 December 2015 (Source: Bloomberg).

b) Other provisions

The balance in "Provisions - Other provisions", which includes provisions for possible expenses, losses and/or probable or certain costs arising from lawsuits or claims in progress, or obligations derived from the Group's business activities, among other items, was estimated using prudent calculation procedures to reflect the uncertainty inherent in the obligations covered.

39. Community projects fund

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Development and Education Fund	11,765	11,430
Appropriation:	11,386	11,051
Applied to Property, plant and equipment	411	442
Applied to other investments - Available-for-sale financial assets (Note 25)	3,437	3,437
Expenses committed during the year	7,172	6,655
Current year maintenance expenses	(7,172)	(6,655)
Amount not committed	7,538	7,172
Revaluation reserves	379	379
	11,765	11,430

(Expressed in €' 000)

Movements during 2015 and 2014 in the balance of the Community Projects Fund are as follows:

	2015	2014
Balance at beginning of the year	11,430	10,946
Mandatory provision charged against the surplus for the year	7,538	7,172
Appropriation against the surplus for the year	(7,172)	(6,655)
Fixed asset depreciation (Note 32)	(30)	(33)
Other	(1)	-
Balance at the end of the year	11,765	11,430

Law 13/1989 on Credit Cooperatives, amended by Law 20/1990 concerning the Tax Regime applicable to Cooperatives, maintains the distribution criteria contained in Royal Decree 2860/1978, of 3 November 1978, under which 10% of the net surplus, at least, should be appropriated to the Development and Education Fund (Note 4).

The transfers to this Fund are to be used, among other purposes, for the development of cooperativism and to meet the assistance or cultural needs of the community, or to be invested in assets that meet these objectives. In this respect the mandatory allocation for 2014 and 2013 amounted to €7,172 thousand and €6,655 thousand, respectively. In 2015 €4,767 thousand and €110 thousand (€4,526 thousand and zero in 2014) was allocated to financing corporate institutions of the Mondragón Group and the Inter-cooperative Education and Promotion Fund, respectively.

40. Equity

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Share capital	708,403	695,962
Reserves	722,703	685,013
Less: Treasury shares	(1,359)	(1,322)
Income for the year attributed to Group	102,787	102,117
Less: Dividends and remuneration (Note 4)	(29,741)	(31,058)
	1,502,793	1,450,712

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.

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 2014 and 2013 stood at 4%, respectively.

(Expressed in €' 000)

Movements in 2015 and 2014 in the Parent Entity's capital balance are set out below:

	2015	2014
Balances at the beginning of the year	695,962	696,703
Cooperative returns from the distribution of previous year's surplus	17,931	16,638
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	2,311	2,840
- Members and other	1,958	910
Less, liquidation of contributions owing to departures		
- Associate cooperatives	(2,348)	(10,143)
- Members and other	(7,411)	(10,986)
Additions due to business combination	-	-
Transfers to capital classed as financial liabilities	-	-
Balances at the end of the year	708,403	695,962

At 31 December 2015, 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 14.95% (14.86% in 2014).

In 2013 and 2012, the Parent Entity issued equity twice.

i) The first issue was aimed at working members, collaborating members and Associated Cooperatives, with a subscription term from April to October 2012. At 31 December 2015 and 2014, the amount subscribed for this first issue was €38,293 thousand and €38,333 thousand, respectively. The remuneration associated with the first issue is an annual rate of 7.5% to 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 2015 and 2014, subscriptions for this issue, still open at year-end, were running at €57,766k €58,192k, respectively. 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.

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.

(Expressed in €' 000)

Final Provision Six of Royal Decree 1309/2005 introduced certain amendments to Article 10 of Royal Decree 84/1993 which approved the Regulations on credit cooperatives, which enabled credit cooperatives to establish restrictions in their bylaws on the reimbursement of members' contributions to capital. The Parent Entity's bylaws provide that the reimbursement of contributions to members is subject to the approval of the Governing Body of the Parent Entity and to the condition that said reimbursement does not lead to insufficient coverage of minimum share capital, equity or solvency ratios.

Under the Parent Entity's bylaws, minimum share capital is €10 million and must be fully paid in.

At 31 December 2015 and 2014, equity instruments in subsidiaries held by the Parent Entity, ISGA Inmuebles, S.A. and Caja Laboral Euskadiko Kutxa Cartera, S.L.U. and their nominal values, as well as payments pending on those dates, are the following:

	2015			2014		
	Number of shares	**Nominal value (€)**	**Payments pending**	**Number of shares**	**Nominal value (€)**	**Payments pending**
Seguros Lagun Aro Vida, S.A.	285,000	111,88	8,565	285,000	111,88	8,565
Seguros Lagun Aro, S,A.	87,360	90,15	-	87,360	90,15	-
Caja Laboral Gestión, SGIIC, S.A.	1,045,000	6,01	-	1,045,000	6,01	-
Caja Laboral Pensiones, G.F.P., S.A.	250,000	10	-	250,000	10	-
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	1,237,500	6	-	1,237,500	6	-
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	10,000	1	-	10,000	1	-
Sociedad Gestión Activos Caja Laboral, S.A.U.	995,889	1	-	995,889	1	-
Credilka, S.A.	700,000	1	-	700,000	1	-
Piensos del Norte, S.A.	100,000	1	-	100,000	1	-
Clarim Alava, S.L. (*)	-	-	-	310	10	-
Clarim Navarra, S.L. (*)	-	-	-	310	10	-
Clarim Valladolid, S.L. (*)	-	-	-	310	10	-
ISGA Inmuebles, S.A. (*)	60,000	1	-	60,000	1	-
Eco Moncayo Azul, S.L. (*)	-	-	-	300	10	-
Promociones Maralema, S.L. (*)	-	-	-	300	10	-
Promociones Iturmendi 2010, S.L. (*)	-	-	-	300	10	-
Residencial Los Doce Amigos, S.L. (*)	-	-	-	300	10	-
Copesa Montecerrao, S.L.	51,000	25	-	51,000	25	-
Copesa Valdecilla, S.L. (*)	-	-	-	97,920	25	-
Interpartners Promoción Inmobiliaria Castilla y León, S.L. (*)	-	-	-	300	10	-

(*) During 2015, ISGA Inmuebles, S.A. carried out the merger by absorption of the Group's real-estate companies: Clarim Álava, S.L., Clarim Navarra, S.L. and Clarim Valladolid, S.L. It It also absorbed, through the relevant mergers, six real-estate companies in which Fomenclar held an interest, which had already been absorbed through a merger by ISGA Inmuebles, S.A. in 2014.

(Expressed in €' 000)

Reserves

Set out below is a breakdown of the balance of reserves in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	**2014**
Accumulated reserves (losses):	722,817	685,112
Restatement reserves:	-	-
Parent entity	-	-
Reserves (losses) attributed to Parent Entity:	722,817	685,112
Other reserves	793,631	721,075
Reserves (losses) attributed to Subsidiaries	(70,814)	(35,963)
Reserves (losses) in companies measured under the equity method	(114)	(99)
Associates	10	25
Jointly-controlled entities	(124)	(124)
	722,703	685,013

Movements in 2015 and 2014 in the balance under Reserves are as follows*:*

	2015	**2014**
Balance at the beginning of the year	685,013	660,247
Prior year surplus distribution	42,369	22,675
Share capital increases	78	62
Others	(4,757)	2,029
Balance at the close of the year	722,703	685,013

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 2015 and 2014 Other reserves attributed to the Parent Entity include €546,202k and €510,261k, 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.

(Expressed in €' 000)

Reserve for insolvency risks

Prior to effectiveness of Law 13/1989, qualifying credit cooperatives had to earmark at least 15% of their available annual surpluses to endowing this reserve. Laws 13/1989 and 20/1990 do not require any specific provisions to such an insolvency reserve fund within the criteria for distributing available surplus for the year.

Revaluation reserve

The Parent Entity availed itself of Transitional Provision One of Bank of Spain Circular 4/2004 concerning the restatement of tangible fixed assets whereby enterprises were allowed to record, at 1 January 2004, tangible fixed assets at fair value, subject to the assets being freely available.

Voluntary Reserves

On 26 December 2011, the Governing 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.

The breakdown by Entity of the balance of Reserve (losses) attributable to subsidiaries at 31 December 2015 and 2014 is as follows:

	2015	2014
Seguros Lagun-Aro, Vida, S.A.	(4,204)	(3,459)
Caja Laboral Gestión, SGIIC, S.A.	1,256	1,256
Caja Laboral Pensiones, G.F.P., S.A.	92	84
Crediges, SGIIC, S.A.U.	856	993
Clarim Alava, S.L.	-	(5,388)
Clarim Navarra, S.L.	-	(5,960)
Clarim Valladolid, S.L.	-	(12,915)
Seguros Lagun-Aro, S.A.	(4,469)	(2,126)
Caja Laboral Kutxa Cartera, S.L.U.	7,239	5,443
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	1,448	1,320
Sociedad Gestión Activos Caja Laboral, S.A.U.	(12,893)	(3,232)
ISGA Inmuebles, S.A.	(61,781)	(12,679)
Piensos del Norte, S.A.	894	896
Eco Moncayo Azul, S.L.	-	-
Promociones Maralema, S.L.	-	(146)
Promociones Iturmendi 2010, S.L.	-	-
Residencial Los Doce Amigos, S.L.	-	(46)
Copesa Montecerrao, S.L.	748	(1)
Copesa Valdecilla, S.L.	-	-
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	-	(3)
	(70,814)	(35,963)

(Expressed in €' 000)

The breakdown of the balance of reserves/(losses) in entities measured under the equity method at 31 December 2015 and 2014 is as follows:

	2015	2014
Associates:	10	25
ICR Institutional Investment Management, S.G.I.I.C., S.A.	10	25
Jointly-controlled entities:	(124)	(124)
Fomenclar, S.L.	-	-
Sociedades de Promoción Inmobiliaria (see Appendix I)	(124)	(124)
IK – LKS Corporate, S.L.	-	-
	(114)	(99)

Provided below is a breakdown by Entities of the contribution to Income attributed to the Group at 31 December 2015 and 2014:

	2015	2014
Parent entity	97,727	116,546
Subsidiaries	4,982	(14,452)
Seguros Lagun Aro Vida, S,A.	4,158	6,212
Caja Laboral Gestión S,G.I.I.C., S.A.	1,422	1,471
Caja Laboral Pensiones, G.F.P., S.A.	48	81
Clarim Alava, S.L.	-	(1,401)
Clarim Navarra, S.L.	-	(4,998)
Clarim Valladolid, S.L.	-	(6,526)
Seguros Lagun Aro, S.A.	8,066	9,058
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(13)	(9)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	394	128
Credigés, S.G.I.I.C., S.A.U.	1	(131)
Piensos del Norte, S.A.	(100)	(1)
Sociedad Gestión Activos Caja Laboral, S.A.U.	154	(9,132)
ISGA Inmuebles, S.A.	(9,423)	(9,341)
Eco Moncayo Azul, S.L.	-	(18)
Promociones Maralema, S.L.	-	(451)
Promociones Iturmendi 2010, S.L.	-	(645)
Residencial Los Doce Amigos, S.L.	-	466
Copesa Montecerrao, S.L.	270	787
Copesa Valdecilla, S.L.	-	(2)
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	-	-
Entities measured under the equity method	83	23
- Associates:	83	23
ICR Institutional Investment Management, S.G.I.I.C., S.A.	83	23
- Jointly-controlled entities:	-	-
Fomenclar, S.L.	-	-
Sociedades de Promoción Inmobiliaria (ver Anexo I)	-	-
IK – LKS Corporate, S.L.	-	-
	102,787	102,117

(Expressed in €' 000)

41. Measurement adjustments

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2015 and 2014:

	2015	2014
Available-for-sale financial assets:	135,290	166,311
- Debt securities	105,043	126,312
- Equity instruments	30,247	39,999
Cash flow hedges	-	-
Entities measured under the equity method	-	-
	135,290	166,311

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. Set out below are movements in the equity item Valuation adjustments during 2015 and 2014:

	2015	2014
Balance at beginning of the year	166,311	126,243
Net movement charged /(credited) to income	17,704	(8,409)
Sales and redemptions	(9,029)	(7,099)
Impairment losses (net) charged against income statement	26,733	(1,310)
Net valuation gains / (losses)	(48,725)	48,477
Others	-	-
	135,290	166,311

In order to adequately evaluate the evolution of this heading, the exceptional circumstances in the financial markets during the 2015 and 2014 must be taken into consideration, as explained in Note 18.

The amount recorded under Equity measurement adjustments at 31 December 2015 and 2014 may be broken down by Entities as follows:

	2015	2014
Parent Entity	106,114	132,636
Subsidiaries:	29,176	33,675
- Seguros Lagun-Aro Vida, S.A.	24,572	27,660
- Seguros Lagun Aro, S.A.	4,604	6,015
Associates and Jointly-controlled companies	-	-
	135,290	166,311

42. Tax situation

The Parent Entity and Investees file individual income tax returns in accordance with tax regulations applicable to them.

Pursuant to Provincial Regulation 2/97 of the Gipuzkoa Tax Regime for Cooperatives, the tax rate applicable to credit cooperatives is 28%. In the remaining dependent financial companies the applicable tax rate was 28% in 2015 and 2014.

The legislation applicable to the payment of corporate income tax for 2015 for the main Investees consists of Provincial Regulation 2/2014 of the Gipuzkoa regional authority and Provincial Regulation 11/2013 of the Bizkaia regional authority, depending on the region in which each investee operates and files its corporate income tax returns.

The Directors of the Parent Entity and the Investees have calculated the amounts related to this tax for 2015, and those years open to inspection, in accordance with regional legislation in force at each year end.

Loss carryforwards and tax credits generated under Gipuzkoa regulations must be applied within15 years.

(Expressed in €' 000)

The reconciliation for the Parent Entity of accounting income for 2015 and 2014 to the corporate income tax base is as follows:

	2015	2014
Accounting income for the year before taxes	110,262	110,579
Permanent differences:		
Increases		
- Non-deductible expenses	254	238
- Other items	573	135
Decreases		
- Mandatory allocation to Development and Education Fund	(7,538)	(7,172)
- Allocation to the Inter-Coop Company Fund	(10,759)	(9,983)
- Deductible gross interest paid on account in respect of contributions to share capital	(29,007)	(31,058)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(18,845)	(17,931)
- Capital gains reinvested in fixed assets used in the business	-	(2,058)
- Tax credits used	(16,378)	(12,463)
- Other items	5	(580)
Taxable income (tax loss)	28,567	29,707
Temporary differences		
- Arising in the present year	12,708	71,140
- Dinamic Payroll Plan	(9,404)	3,450
- Appropriations to other provisions	22,112	68,528
- Other	-	(838)
- Arising in previous years	7,884	2,145
Tax base	49,159	102,992
Offset of tax losses	(49,159)	(102,992)
Net tax base	-	-
Gross tax payable (28%)	-	-
Deductions and allowances	-	-
Net tax payable	-	-
Withholdings and payments on account	(3,041)	(2,546)
Corporate income tax payable / (refundable)	(3,041)	(2,546)

The breakdown of corporate income tax in the consolidated income statement for 2015 and 2014 is as follows:

	2015	2014
Accounting base at the applicable rate	7,999	8,318
Deductions and allowances	(1,213)	(714)
Other items	(1,643)	192
	5,143	7,796

(Expressed in €' 000)

The breakdown of 'Corporate income tax' in the 2015 and 2014 consolidated income statements is as follows:

	2015	2014
Accounting profit at the statutory rate	7,999	8,318
Tax credits and tax relief	(1,213)	(714)
Other items	(1,643)	192
Corporate income tax, Parent Entity	5,143	7,796
Corporate income tax, Investee Entities		
Accounting profit at the statutory rate	4,110	6,897
Other items	-	-
	9,253	14,693

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 2015 and 2014. The items and amounts in question are shown below:

	2015	2014
Measurement adjustments:		
Available-for-sale financial assets	(12,064)	15,597
Cash flow hedges	-	(15)
	(12,064)	15,582

At 31 December 2015 and 2014, 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	2015	2014
Unused tax losses	2027	705,607	703,952
		705,607	703,952

(Expressed in €' 000)

At 31 December 2015 and 2014, 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	2015	2014
Deductions for double taxation	2030	10,171	9,917
Deductions with limit over gross tax payable	2030	12,434	11,599
Deductions without limit over gross tax payable	2030	3,312	2,552
		25,917	24,068

Deductions without a limit over gross tax payable relate mainly to deductions generated as a result of Parent Entity investments in R&D&I.

During 2014 the Parent Entity availed itself of the reinvestment exemption in the amount of €2,625 thousand for the sale of Property, Plant and equipment at a selling price of €4,456 thousand, which has been utilised by means of new Property, Plant and equipment investments during the year.

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.

At 31 December 2015 the Parent Entity's tax returns for 2012 to 2015 for the principal taxes to which it is subject are open to inspection by the tax authorities.

The Parent Entity's Directors consider that any liabilities that could arise from the years open to inspection would not have a significant effect on the consolidated annual accounts for 2015. Due to the different interpretations that may be afforded to tax regulations applicable to the transactions performed by the Group, for the years pending inspection certain contingent tax liabilities could exist. However, in the opinion of the Parent Entity's Directors, the possibility of such contingent liabilities arising is remote and, in any event, the tax liability which could arise would not have a significant effect on the Group's consolidated annual accounts as a whole.

(Expressed in €' 000)

43. Fair value of balance sheet assets and liabilities

a. 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.

The following table summarizes the fair values at the end of 2015 and 2014 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2015

	Total Balance	Fair Value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash on hand and on deposits at central banks	183,177	183,177	-	-	183,177
Trading portfolio	258,966	258,966	256,417	2,549	-
Other financial assets at fair value through profit and loss	558	558	558	-	-
Available-for-sale financial assets	4,616,341	4,589,196	4,070,487	221,428	297,281
Credit investments	13,967,063	13,967,063	-	-	13,967,063
Held-to-maturity investments	1,142,714	1,227,673	1,215,536	12,137	-
Derivatives held for hedging	232,753	232,753	-	232,753	-
TOTAL FINANCIAL ASSETS	**20,401,572**	**20,459,386**	**5,542,998**	**468,867**	**14,447,521**
Trading portfolio	3,430	3,430	1,190	2,240	-
Financial liabilities at amortized cost	18,872,284	18,872,284	-	-	18,872,284
Derivatives held for hedging	114,798	114,798	-	114,798	-
TOTAL PASIVOS FINANCIEROS	**18,990,512**	**18,990,512**	**1,190**	**117,038**	**18,872,284**

2014

	Total Balance	Valor razonable	Jerarquía valor razonable		
			Nivel 1	Nivel 2	Nivel 3
Cash on hand and on deposits at central banks	143,456	143,456	-	-	143,456
Trading portfolio	288,223	288,223	280,005	8,218	-
Other financial assets at fair value through profit and loss	2,128	2,128	903	1,225	-
Available-for-sale financial assets	6,391,699	6,355,339	5,803,672	222,550	329,117
Credit investments	14,674,415	14,674,415	-	-	14,674,415
Held-to-maturity investments	1,719,014	1,833,302	1,833,302	-	-
Derivatives held for hedging	303,066	303,066	-	303,066	-
TOTAL FINANCIAL ASSETS	**23,522,001**	**23,599,929**	**7,917,882**	**535,059**	**15,146,988**
Trading portfolio	10,230	10,230	1,974	8,256	-
Financial liabilities at amortized cost	21,992,215	21,992,215	-	-	21,992,215
Derivatives held for hedging	133,082	133,082	-	133,082	-
TOTAL FINANCIAL LIABILITIES	**22,135,527**	**22,135,527**	**1,974**	**141,338**	**21,992,215**

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).

- Equity instruments: The listed price on active markets (Level 1) has been used, except for certain mutual funds and venture capital funds, for which the prices calculated by external appraisers (Levels 2 and 3).

  At 31 December 2015 and 2014 there are also unlisted equity instruments classified in the Available-for-sale financial asset portfolio recorded at historical cost for €27,145 thousand and €36,360 thousand, respectively, which have therefore not been considered 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.

(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 different to their recognized net value since the potential buyer could not only discount the losses incurred and recognized in accordance with applicable accounting rules, but also the losses that could be incurred in the future in the case of a prolonged existence of the current economic situation, exceptional in terms of its length and effects.

- Financial liabilities 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.

ii) Fair value of non-financial assets

The comparison at 31 December 2015 and 2014 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:

	2015		2014	
	Value recorded	**Fair value**	**Value recorded**	**Fair value**
Assets				
Property, plant and equipment:				
For own use and investment properties	368,454	395,972	393,623	421,160
Non-current assets for sale	354,765	354,765	338,102	338,102
Inventories	3,441	3,441	2,391	2,391

The fair value of these assets has been determined as follows:

- At 31 December 2015 and 2014 the fair value of the properties included under the headings Property, plant and equipment for own use and Investment properties was calculated, at 51% and 47%, respectively, of the carrying cost through valuations, performed in 2012 and 2015 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.

  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.

(Expressed in €' 000)

- The fair value of non-current assets held for sale located in Spain has been estimated taking into account expected recoverability, applying the parameters set out in Section IV of Appendix IX to Bank of Spain Circular 4/2004. For assets related to real estate development, the criteria contained in Section V of Appendix IX have been applied. In determining said value, the appraisals conducted by the valuation companies registered with the Bank of Spain have also been utilised, in accordance with MO ECO/805/2003 of 27 March and the current situation in the property market and the economic cycle.

The Parent Entity mainly uses the services of the following valuation companies: Sociedad de Tasación, S.A., Krata, S.A., Gesvalt Sociedad de Tasación, S.A., Técnicas de Tasación, S.A. and Servicios Vascos de Tasaciones, S.A.

44. Contingent risks

The breakdown of this heading at 31 December 2015 and 2014 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:

	2015	2014
Financial guarantees	75,624	76,345
Other guarantees and sureties	171,481	194,670
Irrevocable documentary credits	10,450	15,120
	257,555	286,135

45. Contingent commitments

A breakdown of this heading at 31 December 2015 and 2014 is as follows:

	2015	2014
Balances drawable by third parties:	860,870	766,002
Credit institutions	-	-
The Public Administrations sector	98,849	27,730
Other resident sectors	761,374	737,848
Non-residents	647	424
Securities subscribed pending disbursement	8,963	8,963
Other contingent commitments	115,257	101,700
Documents delivered to Clearing Houses	115,257	101,700
	985,090	876,665

(Expressed in €' 000)

46. Interest and similar revenue

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Deposits at central banks	70	197
Deposits at credit institutions	3,339	8,338
Money market transactions	229	471
Customer loans	249,256	299,920
Debt securities	133,015	206,551
Doubtful assets	1,346	1,312
Financial income from insurance activities	24,023	24,340
Rectification of revenues owing to hedging operations	(16,155)	(8,992)
Other interest	44	314
	395,167	532,451

The distribution by geographical area of the number of the Group's bank branches at 31 December 2015 and 2014 is as follows:

	2015	2014
Bizkaia	103	103
Gipuzkoa	78	78
Araba	41	41
Navarra	47	47
New network	99	102
	368	371

47. Interest and similar charges

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Deposits from central banks	251	5,129
Credit institution deposits	997	1,984
Operations on the monetary market	37	109
Customer funds	165,967	240,123
Marketable debt securities (Note 36)	1,247	3,105
Rectification of expenses owing to hedging operations	(87,810)	(90,487)
Financial expense from insurance activities	5,559	4,196
Other interest	23	-
	86,270	164,159

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).

(Expressed in €' 000)

48. Return on equity instruments

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Instrumentos de capital:	8,536	5,773
Acciones	8,536	5,773
	8,536	5,773

49. Results in Entities carried under the equity method

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows (Note 40):

	2015	2014
Associates	83	23
Jointly-controlled entities	-	-
	83	23

50. Fees collected

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
For contingent exposures	3,501	3,957
For contingent commitments	1,175	1,264
For currency and foreign bank notes exchange	118	112
For collection and payment services	42,105	47,350
For securities services:	25,256	25,101
Underwriting and placement of securities	7	1,009
Purchase-sale of securities	1,218	1,125
Administration and custody	1,529	1,552
Asset management	22,502	21,415
For marketing of non-bank financial products:	20,450	23,043
Investment funds	1,695	1,521
Pension funds	17,584	19,597
Insurance	1,171	1,925
Others	-	-
Other fees	14,777	14,667
	107,382	115,494

(Expressed in €' 000)

51. Fees paid

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Brokerage in asset and liability transactions	42	45
Fees assigned to other correspondent entities:	3,042	4,890
For collection or return of bills	63	137
For other items	2,979	4,753
Fees paid on securities operations	1,010	912
With market intermediaries	904	883
Other	106	29
Other fees	6,731	6,643
	10,825	12,490

52. Results of financial operations (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Trading portfolio (Note 23)	739	2,496
Other financial instruments at fair value through profit and loss	2,886	2,993
Available-for-sale financial assets	12,541	9,860
Hedging derivatives	(71,489)	12,685
Other	70,686	(11,714)
	15,363	16,320
Gains	1,029,490	796,076
Losses	(1,014,127)	(779,756)
	15,363	16,320

"Results of financial operations (net) – Hedging derivatives" refers to the measurement adjustments of the hedging derivatives for fair values hedges, for the years 2015 and 2014. 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).

(Expressed in €' 000)

53. Exchange differences (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Gains	370,027	102,786
Losses	(369,034)	(101,799)
	993	987

54. Other operating revenue

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Revenues from insurance and reinsurance policies issued	186,600	188,720
Sales and revenues from non-financial services rendered	6,140	8,332
Other operating revenues	12,155	11,485
Financial fees offsetting costs	2,338	2,275
Revenues from other operating leases (net) (Note 32)	4,290	4,359
Inventory variations in real estate assets	-	-
Other	5,527	4,851
	204,895	208,537

55. Other operating charges

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2015 and 2014 and is as follows:

	2015	2014
Expenses for insurance and reinsurance policies	140,695	147,379
Other operating expenses	30,732	37,755
Contribution to Deposits Guarantee Fund (Note 10)	20,033	28,592
Contribution to National Resolution Fund (Note 10).	4,005	-
Purchases and expenses related to real estate assets	-	96
Other	6,694	9,067
Change in inventories	-	-
	171,427	185,134

(Expressed in €' 000)

56. Administrative expenses

a) Staff costs

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Salaries and bonuses paid to serving employees	133,498	140,571
Social security contributions	6,793	6,723
Severance payments	223	153
Staff training expenses	1,297	1,067
Other staff costs	712	518
	142,523	149,032

At 31 December 2015 and 2014 the Parent Entity records remuneration related to services provided in the course of business, as analysed below:

	2015			2014		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	324	755	431	553	1,140	587

There is remuneration relating to the delivery of services corresponding to the Parent Entity's activity, A breakdown is provided below:

	2015	2014
Directors	54	64
Managers	489	507
Specialists	978	928
Administrative personnel	1,025	1,067
	2,546	2,566

At 31 December 2015 and 2014 the Group's personnel fell into the following categories, by gender and location:

	Number of members					
	2015			2014		
	Women	Men	Total	Women	Men	Total
Directors	4	50	54	7	57	64
Managers	137	352	489	137	370	507
Specialists	522	456	978	492	436	928
Administrative personnel	622	403	1,025	634	433	1,067
	1,285	1,261	2,546	1,270	1,296	2,566
Parent Entity	984	1,135	2,119	967	1,167	2,134
All other Investee Entities:						
Subsidiaries	301	126	427	303	129	432
	1,285	1,261	2,546	1,270	1,296	2,566

(Expressed in €' 000)

The breakdown of the number of members of the Governing Body of the Parent Entity by gender, at 31 December 2015 and 2014, was as follows:

	Number of members					
	2015			2014		
	Women	Men	Total	Women	Men	Total
Members of Governing Body	3	11	14	3	11	14

b) Other general administrative expenses

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
For buildings, installations and materials:	18,833	20,001
Rentals (Note 32)	6,609	6,971
Maintenance of fixed assets	7,243	7,532
Lighting, water and heating	3,248	3,281
Forms and office materials	1,733	2,217
Data processing	10,642	10,930
Communications	6,205	6,815
Advertising and publicity	9,934	10,792
Legal costs and lawyers' fees	5,259	5,255
Technical reports	14,007	10,874
Surveillance and transfer of funds services	1,906	2,043
Insurance and self-insurance premiums	1,123	786
By Governing and Control Bodies	305	236
Entertainment and staff travel expenses	2,558	2,500
Association charges	241	179
Administrative services subcontracted	11,257	14,667
Rates and taxes	13,799	13,647
Other expenses	2,832	5,727
	98,901	104,452

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.

57. Depreciation and amortisation

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Property, plant and equipment:	19,996	20,809
Property, plant and equipment	19,069	20,258
For own use	15,360	16,609
Assigned under operating leases	3,709	3,649
Investment properties	927	551
Intangible assets	-	3
	19,996	20,812

(Expressed in €' 000)

58. Provisions (net)

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Allocations to pension funds and similar obligations:	2,481	13,309
Early retirement (Note 38)	2,481	13,309
Provisions for contingent exposures and commitments:	(778)	2,274
Contingent exposures (Note 38)	(778)	2,274
Provisions for taxes (Note 38)	(162)	162
Other provisions (Note 38)	30,715	64,903
	32,256	80,648

59. Financial asset impairment losses (net)

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2015 and 2014 and is as follows:

	2015	2014
Credits, loans and discounts (Note 26)	2,380	31,117
Loans	2,380	31,117
Other financial instruments not stated at fair value with changes in income statement	37,129	(1,820)
Available-for-sale financial assets (Note 25)	37,129	(1,820)
Debt securities	28,843	(3,869)
Equity instruments	8,286	2,049
Held-to-maturity investment portfolio (Note 27)	-	-
	39,509	29,297

60. Other asset impairment losses (net)

The breakdown of this heading in the consolidated income statements for the years ended 31 December 2015 and 2014 and is as follows:

	2015	2014
Other asset	20,023	1,045
Associates (Note 30)	23	3
Jointly-controlled entities (Note 30)	-	-
Inventories	-	-
Property, plant and equipment (Note 32)	20,000	849
Others	-	193
	20,023	1,045

(Expressed in €' 000)

61. 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 2015 at 2014 is as follows:

	2015	2014
Net gains/ losses on the sale of property, plant and equipment	(586)	4,590
Net gains (losses) on disposal of shareholdings	-	-
Other items	-	-
	(586)	4,590

62. 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 2015 and 2014 and is as follows:

	2015	2014
Net gains/(losses) on sale of non-current assets	(15,439)	(22,671)
Impairment losses of Non-current assets for sale (Note 29)	24,914	2,278
	9,475	(20,393)

63. 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 2015 and 2014 totalling €7,538k and €7,172k, 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)

64. Transactions with Subsidiaries, Jointly-controlled entities and Associates

The significant balances recorded at 31 December 2015 and 2014 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 2015 and 2014 relating to asset and liability transactions with Jointly-controlled entities and Associates may be summarised as follows:

	2015	2014
Balances		
Customer funds	13	15
Non-current assets for sale	-	11,680
Guarantees	-	-

The most significant transactions carried out in 2015 and 2014 with Jointly-controlled entities and Associates are as follows:

	2015	2014
Interest and similar charges	-	-
Fees collected	-	2
Interest and similar income	-	-

65. Other information

A breakdown of customer funds off the Group's consolidated balance sheet at 31 December 2014 and 2013 is as follows:

	2015	2014
Managed by the Entity's Group:	3,769,409	3,542,497
Investment Funds and companies	1,744,227	1,506,145
Pension funds and EPSVs	1,640,924	1,664,873
Insurance contract saving	384,258	371,479
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	548,568	381,603
	4,317,977	3,924,100

In 2015 and 2014 the Group has carried out the following investment services on account of third parties:

	2015	2014
Brokering in securities market transactions	2,951,497	2,149,894
Deposit of securities owned by third parties	4,809,174	4,185,702

Total debt securities assigned by the Group at 31 December 2015 and 2014 amounted to €1,472,092 thousand and €422,639 thousand, respectively, which had been assigned to third parties and recognised under Financial liabilities at amortised cost - Customer deposits on the balance sheet. The remaining balance at the end of each year is included under Financial liabilities at amortised cost - Deposits in credit institutions on the balance sheet.

66. 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 2014, 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 2015 and 2014 amounts to €10,945 million and €11,495 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 €7,911 and €8,100 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	
	2015	2014
	Nominal value	Nominal value
Total loans (a)	**11,804**	**12,440**
Mortgage bonds issued	**-**	**-**
Of which: Loans recognised in balance sheet	-	-
Mortgage transfer certificates issued	**859**	**945**
Of which: Loans recognised in balance sheet	859	945
Mortgage loans securing financing received	-	-
Loans securing issues of mortgage bonds and covered bonds	**10,945**	**11,495**
Non-eligible loans (b)	3,034	3,395
They fulfil requirements to be eligible, except the limit stipulated in Article 5,1 of RD 716/2009	1,925	2,218
Other	1,109	1,177
Eligible loans (c)	7,911	8,100
Non-computable amounts (d)	8	9
Computable amounts	7,903	8,091
Loans covering mortgage bond issues	-	-
Loans eligible for covered bond issue coverage	7,903	8,091

(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 12of Royal Decree 716/2009.

(d) Amount of the eligible loans that, in line with the criteria set in article 12 of Royal Decree 716/2009, are not computable to offer coverage for the issue of mortgage bond s or securities.

(Expressed in €' 000)

The following table shows a breakdown of the mortgage loans and credits according to the various attributes of these amounts at 31 December 2015 and 2014:

	Million euros			
	2015		2014	
	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	**10,945**	**7,911**	**11,495**	**8,100**
1 ORIGIN OF THE OPERATIONS	**10,945**	**7,911**	**11,495**	**8,100**
1,1 Originated by the entity	10,848	7,840	11,391	8,025
1.2 Subrogated from other entities	97	71	104	75
1.3 Rest	-	-	-	-
2 CURRENCY	**10,945**	**7,911**	**11,495**	**8,100**
2.1 Euro	10,945	7,911	11,495	8,100
2.2 Rest of currencies	-	-	-	-
3 PAYMENT SITUATION	**10,945**	**7,911**	**11,495**	**8,100**
3.1 Normal in payment	10,040	7,660	10,362	7,775
3.2 Other situations	905	251	1,133	325
4 AVERAGE RESIDUAL MATURITY	**10,945**	**7,911**	**11,495**	**8,100**
4.1 Up to ten years	4,328	2,801	4,251	2,608
4.2 Over ten years up to twenty years	6,549	5,068	7,054	5,399
4.3 Over twenty years up to thirty years	68	42	190	93
4.4 More than thirty years	-	-	-	-
5 INTEREST RATES	**10,945**	**7,911**	**11,495**	**8,100**
5.1 Fixed	112	9	32	1
5.2 Variable	10,833	7,902	11,463	8,099
6 OWNERS	**10,945**	**7,911**	**11,495**	**8,100**
6.1 Companies and business persons	1,374	2	1,571	3
Of which: Real estate promotions	*218*	-	*301*	-
6,2 Rest of persons and ISFLSH	9,571	7,909	9,924	8,097
7 TYPE OF GUARANTEE	**10,945**	**7,911**	**11,495**	**8,100**
7.1 Assets/finished buildings	10,701	7,894	11,148	8,078
7.1.1 Homes	10,038	7,609	10,524	8,045
Of which: Homes with official protection	*717*	*541*	*848*	*616*
7.1.2 Commercial	305	18	260	23
7.1.3 Rest	358	267	364	10
7.2 Assets/Buildings under construction	36	-	43	-
7.2.1 Homes	35	-	42	-
Of which: Homes with official protection	-	-	*4*	-
7.2.2 Commercial	1	-	1	-
7.2.3 Rest	-	-	-	-
7.3 Land	208	17	304	22
7.3.1 Developed	39	6	71	8
7.3.2 Rest	169	11	233	14

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 loans or 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 2015 and 2014 amounts to €7,903 million and €8,091 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 2015 and 2014, 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 2015 and 2014 amount to €859 million and €945 million, respectively.

The nominal value of all non-eligible loans and mortgage loans totalled €3,034 million at 31 December 2015 (€3,395 million at 31 December 2014); loans not eligible because the limits stipulated in Article 5.1 of Royal Decree 716/2009 are not fulfilled but which fulfil the other eligibility requirements (stated in Article 4 of the Royal Decree) totalled €1,925 million and €2,218 million at year-ends 2015 and 2014, 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 2015 and 2014, is as follows:

At 31 December 2015

	Million euros				
	Risk on the latest valuation available for the mortgage market purposes (*loan to value*) (b)				
	2015				
	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)	**2,344**	**2,745**	**2,822**	**-**	**7,911**
- On homes	2,325	2,724	2,809	-	7,858
- On others	19	21	13	-	53

At 31 December 2014

	Million euros				
	Risk on the latest valuation available for the mortgage market purposes (*loan to value*) (b)				
	2014				
	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)	**2,310**	**2,766**	**3,024**	**-**	**8,100**
- On homes	2,287	2,738	3,008	-	8,033
- On others	23	28	16	-	67

(a) Loans eligible for the issue of mortgage bonds or securities, without deducting the limits to their computing established in article 12 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 2015 and 2014 are as follows:

	Million Euros s	
	Eligible loans (a)	Non-eligible loans (b)
1 Opening balance 2014	8,374	3,869
2 Removal from the perimeter	905	888
2.1 Cancellation at maturity	7	49
2.2 Advanced cancellations	70	184
2.3 Subrogated to other entities	-	-
2.4 Rest	828	655
3 Entries to the perimeter	631	414
3.1 Originated by the entity	250	134
3.2 Subrogated from other entities	-	-
3.3 Rest	381	280
3.4 Additions due to business combinations	-	-
4 Closing balance 2014	8,100	3,395
1 Opening balance 2015	8,100	3,395
2 Removal from the perimeter	1,151	837
2.1 Cancellation at maturity	9	54
2.2 Advanced cancellations	100	218
2.3 Subrogated to other entities	-	-
2.4 Rest	1,042	565
3 Entries to the perimeter	962	476
3.1 Originated by the entity	386	241
3.2 Subrogated from other entities	-	-
3.3 Rest	576	235
3.4 Additions due to business combinations	-	-
4 Closing balance 2015	7,911	3,034

(a) Loans eligible for the issue of mortgage bond s or securities in line with article 3 of Royal Decree 716/2009, without deducting the limits to their computing established in article 12 of Royal Decree 716/2009.

(b) Loans with 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 2015 and 2014 are as follows:

	Euro Million	
	2015	2014
	Balances available. Nominal value (a)	Balances available. Nominal value (a)
Mortgage loans that back the issue of mortgage bonds and securities	**32**	**40**
- Potentially eligible (b)	-	-
- Non-eligible	32	40

(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 2015 and 2014 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 42.66% and 49.07%, respectively, compared to the maximum of 80% established in the Article 16 of Law 2/1981, of 25 March, on the Regulation of the Mortgage Market.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015
(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 2015 and 2014:

	Million €			
	2015		2014	
Mortgages	**Nominal value**	**Average residual maturity (in months)**	**Nominal value**	**Average residual maturity (in months)**
1 Mortgage bonds issued live	**-**		**-**	
2 Mortgage warrants issued	**3,375**		**3,975**	
Of which: not registered in liabilities on balance sheet	1,550		1,400	
2,1 Securities representing debt, Issued through public offer	1,550		1,550	
2.1.1 Residual maturity up to one year	700		-	
2.1.2 Residual maturity greater than one year and up to two years	700		700	
2.1.3 Residual maturity greater than two years and up to three years	-		700	
2.1.4 Residual maturity greater than three years and up to five years	150		75	
2.1.5 Residual maturity greater than five years and up to ten years	-		75	
2.1.6 Residual maturity greater than ten years	-		-	
2.2 Securities representing debt. Rest of issues	-		-	
2.2.1 Residual maturity up to one year	-		-	
2.2.2 Residual maturity greater than one year and up to two years	-		-	
2.2.3 Residual maturity greater than two years and up to three years	-		-	
2.2.4 Residual maturity greater than three years and up to five years	-		-	
2.2.5 Residual maturity greater than five years and up to ten years	-		-	
2.2.6 Residual maturity greater than ten years	-		-	
2.3 Deposits	1,825		2,425	
2.3.1 Residual maturity up to one year	600		600	
2.3.2 Residual maturity greater than one year and up to two years	-		600	
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	600		100	
2.3.5 Residual maturity greater than five years and up to ten years	625		1,125	
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)	859	232	945	238
4,1 Issued through public offer	-	-	-	-
4.2 Rest of issues	859	232	945	238

(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).

67. Information on average payment period for suppliers Additional Provision Three. Disclosure requirement Law 15/2010

In accordance with Law 31/2014 on the improvement of corporate governance which amended Additional Provision Three of Law 15/2010 on the amendment of Law 3/2004 which implemented measures to combat late payment in business transactions, and considering the Single Additional Provision of the Resolution of 29 January 2016 by the Institute of Accountants and Auditors, for the purpose of complying with the relevant disclosure requirements, information on the average supplier payment period during 2015 is set out below:

	FY 2015
	Days
Average supplier payment period	14
Transactions paid ratio	13
Transactions pending payment ratio	20
	Amount (thousand euro)
Total payments made	323.836
Total payments outstanding	64.866

68. Business combinations and the acquisition of participation in Dependent, Jointly-controlled and Associated Entities

a) Business combinations

On 6 June 2014, Laboral Kutxa, the single shareholder of ISGA Inmuebles, S.A. (acquiring company) and the governing bodies of Fomenclar, S.L.; Astillero El Navío, S.L.; Promociones Royal La Sagrada, S.L.; Promociones Royal Almazarro, S.L.; Guimel Aragón, S.L.; Fuster Yequeda, S.L.; Residencial Almudevar, S.L.; Capitol Promociones XXI, S.L.; Nuevos Desarrollos Residenciales de la Albericia, S.L.; Nuevas Promociones La Galera, S.L.; Nuevas Promociones Sector 53, S.L.; Capital León, S.L.; Vial La Florida, S.L.; Flores Alfinden, S.L.; Nuevos Desarrollos Residenciales M3 Torrelavega, S.L. and Guimel Burgo 2007, S.L. (the absorbed companies) approved the common horizontal merger plan among said companies, without the liquidation of the absorbed companies.

The shareholders of the above 16 companies and the percentage ownership were as follows:

1. In the case of Fomenclar, S.L. 50% Laboral Kutxa and 50% Lagun Aro EPSV,
2. In the other 15 companies, 25% Laboral Kutxa, 25% Lagun Aro EPSV and 50% Fomenclar, S.L.

The merger was to be performed through the absorption by ISGA Inmuebles, S.A. (Sociedad Unipersonal) of the above-mentioned 16 companies in accordance with the procedure laid down in Articles 30 et seq. of Law 3/2009 on Structural Changes in Trading Companies. The merger is not subject to the provisions of Articles 49 to 52 of said Law covering special cases. In accordance with Article 22 of Law 3/2009, as a result of the merger the 16 target companies will be integrated into a single company (the acquiring company ISGA Inmuebles, S.A.) through the transfer in bloc of their assets and liabilities and the allocation of shares in the acquiring company (an existing enterprise) to the shareholders of the extinguished companies

The merger resolution was executed in a public deed on 10 July 2014 and entered in the Gipuzkoa Mercantile Register on 14 July 2014.

Under IFRS 3, all the operations of the target companies were regarded for accounting purposes as being performed by ISGA Inmuebles, S.A. and the Laboral Kutxa Group, as acquiring company, as from the date of registration in the Gipuzkoa Mercantile Register, i.e. 14 July 2014.

The consideration paid by the Group and the fair values of the assets and liabilities acquired by the Group at the acquisition date are summarised below.

Consideration at 14 July 2014	**Miles de euros**
Cash	-
Equity instruments	-
Contingent consideration	-
Total consideration transferred	-
Asset due to indemnity	-
Fair value of the assets transferred by the Group	45,239
Fair value of the interest in the Group's equity held before the business combination	238
Total consideration	**45,477**

(Expressed in €' 000)

The fair value of the non-controlling shareholdings in the Group have been estimated using the equity value of the target companies, calculated on the basis of their equity at the date of the merger.

Recognised amounts for identifiable assets and liabilities assumed	Thousand euro
Non-current assets held for sale	54,343
Other assets	722
Other liabilities	(2,319)
Total identifiable net assets	**52,746**
Non-controlling interests	**-**
Badwill	**(7,269)**
Total	**45,477**

Costs related to the acquisition have been charged to "Other management expenses" on the consolidated income statement for 2014.

There are no contingent payment agreements that would require the Group to make any payment in future.

Current accounting legislation provides for a maximum period of one year as from the date of the business combination (14 July 2014) during which the Group may adjust the amounts recognised with respect to Non-current assets held for sale which are considered to be provisional if, as a result of the receipt of relevant information concerning events and circumstances that existed at the date of the business combination and which had they been know would have affected the amounts recognised at that date, the need emerges to make an adjustment to the provisional figures which are presented in these consolidated annual accounts. Following said period, adjustments may be made to the initial valuations only if so required to correct an error.

No contingent liabilities for the Group have been recognised derived from the merger of the above companies and neither have any assets for possible indemnities been recorded in this connection.

The Group recognised a gain of €7,269 thousand as a result of recording the net assets acquired in the business combination at fair value. This gain was included under "Difference on business combination" on the consolidated income statement for 2014.

Since 14 July 2014, the target companies have generated income included in the Group's consolidated income statement amounting to €55 thousand. The profit contributed by the target companies during the period 14 July 2014 to 31 December 2014 amounted to €31 thousand.

If the target companies had been consolidated as from 1 January 2014, the consolidated income statement for 2014 would have reflected pro-forma revenue of €843 thousand and a net pro-forma loss of €499 thousand.

ANEXO I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2015

(€'000)

			2015								
			Ownership interest, %		Carrying amount			Investee earnings data (*)			
Company	Registered office	Business activity	Direct	Indirect	Gross	Impair-ment	Net	Assets	Equity	Revenue	Net profit (loss)
Subsidiaries:											
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	25,943	-	25,943	528,226	66,607	58,399	4,158
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	206,870	55,269	88,811	8,066
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	13,346	8,959	18,286	1,422
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,296	2,640	2,769	48
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	68,895	66,908	5,754	5,750
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	Bilbao	Bancassurance operator	100%	-	10	-	10	7,607	1,852	30,565	394
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Real estate asset management	100%	-	4,968	(4,000)	968	15,855	15,393	11,944	(4,445)
Credilka, S.A.	Bilbao	Trading company	100%	-	1.620	-	1,620	2,479	2,477	-	1
Piensos del Norte, S.A.	Mungia	Feedstock producer	100%	-	102	-	102	2,076	884	4,373	(115)
ISGA Inmuebles, S,A.	Mondragón	Trading company	100%	-	60	(60)	-	296,552	263,216	34,282	(90,188)
Copesa Montecerrao, S.L.	Mondragón	Real estate development	1%	50%	25	(25)	-	25	(4,427)	485	223
					118,831	(4,085)	114,746				
Jointly-controlled entities											
Copesa Cienpozuelos, S.L.	Mondragón	Real estate development	-	50%	-	-	-	13	13	-	(3)
					-	-	-				

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2015

(€'000)

			2015									
			% Holding		Carrying amount			Investee entity data (*)				
Company	Registered Office	Business activity	Direct	Indirect	Gross	Impair-ment	Net	Assets	Equity	Revenue from services/sales	Net result
Associates												
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	23.81%	-	133	-	133	1,264	952	2,200	348
					133	-	133				

(a) At 31 December 2015 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to €8,565k.

(*) The above figures for equity relate to the standardised financial statements of the investee entities at 31 December 2015. 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 2015.

This appendix forms an integrated part of Note 30 to the consolidated annual accounts and should be read together with it.

ANEXO I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2014

(€'000)

			2014								
			% Holding		Carrying amount			Investee entity data (*)			
Company	Domicile	Activity	Direct	Indirect	Gross	Impairment	Assets	Equity	Equity	Revenue from services/sales	Net result
Subsidiaries:											
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	25,943	-	25,943	516,206	71,106	62,506	6,212
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50,36%	17,649	-	17,649	204,161	57,043	87,831	9,058
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón (Gipuzkoa)	Investment fund manager	100%	-	6,281	-	6,281	13,664	9,008	17,035	1,471
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón (Gipuzkoa)	Pension fund manager	100%	-	2,500	-	2,500	3,300	2,665	2,953	81
Clarim Alava, S.L.	Mondragón (Gipuzkoa)	Real estate development	100%	-	1,672	(1,672)	-	18,701	(29,150)	2,445	(568)
Clarim Navarra, S.L.	Mondragón (Gipuzkoa)	Real estate development	100%	-	33	(33)	-	47,118	(91,559)	7,440	(4,441)
Clarim Valladolid, S.L.	Mondragón (Gipuzkoa)	Real estate development	100%	-	3	(3)	-	30,528	(51,994)	5,456	(7,376)
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón (Gipuzkoa)	Holding company	100%	-	59,673	-	59,673	65,123	65,117	3,956	3,956
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	Bilbao	Bancassurance operator	100%	-	10	-	10	4,279	1,458	21,799	128
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón (Gipuzkoa)	Real estate asset management	100%	-	12,399	(11,431)	968	23,888	(7,962)	21,883	(13,820)
Crediges, S.G.I.I.C, S.A.U.	Bilbao	Investment fund manager	100%	-	1,620	-	1,620	2,488	2,483	253	(137)
Piensos del Norte, S.A.	Mungia (Bizkaia)	Feedstock producer	100%	-	102	-	102	2,046	978	6,381	(19)
ISGA Inmuebles, S.A.	Mondragón (Gipuzkoa)	Real estate development	100%	-	3,129	(3,129)	-	180,210	(221,912)	23,298	(54,804)
Eco Moncayo Azul, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	3,294	(8,333)	-	(666)
Promociones Iturmendi 2010, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	4,351	(4,898)	-	(1,288)
Promociones Maralema, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	958	(3,682)	7	(769)
Residencial Los Doce Amigos, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	7,296	(1,369)	3,503	215
Copesa Montecerrao, S.L.	Mondragón (Gipuzkoa)	Real estate development	1%	50%	25	(25)	-	359	(4,651)	1,288	469
Copesa Valdecilla, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	32	(21)	-	(3)
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	Mondragón (Gipuzkoa)	Real estate development	-	100%	-	-	-	5	(42)	-	(53)
					131,039	(16,293)	114,746				
Jointly-controlled entities											
Copesa Ciempozuelos, S.L.	Barcelona	Real estate development	-	50%	-	-	-	17	17	-	(10)
					-	-	-				

CAJA LABORAL POPULAR COOP. DE CRÉDITO

			2014								
			Ownership interest, %		Carrying amount			Investee earnings data (*)			
Company	Registered office	Business activity	Direct	Indirect	Gross	Impair-ment	Net	Assets	Equity	Revenue	Net profit (loss)
Associates											
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	23.81%	-	371	-	371	1,969	1,759	1,876	97
					371	-	371				

(a) At 31 December 2014 the Parent Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to €8,565k.

(*) The above figures for equity relate to the standardised financial statements of the investee entities at 31 December 2014. 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 2014.

This appendix forms an integrated part of Note 30 to the consolidated annual accounts and should be read together with it.

ANEXO II

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AT 31 DECEMBER 2015 AND 2014

Name	Address	ID Code	Date of grant of powers	Date of finalisation of mandate	Geographical scope	Scope of powers
Caja Laboral Banca Seguros O.B.S.V., S.L.U.	Paseo de Arenal, 4 - Bilbao	B 75060988	30.12.2012	Indefinite	Domestic	- Handle operations involving current accounts, savings accounts, term deposits, investment funds, pension plans and welfare plans, signing all necessary documents. - Process loans and other risk operations for the Entity. - Correspond with the Entity and keep in contact with the public, organising the work in the timetable and the form it considers appropriate, in accordance with rules and instructions received from the Entity

CAJA LABORAL POPULAR COOP. DE CRÉDITO **ANEXO III**

ANNUAL BANKING REPORT

Information at 31 December 2015 on the Laboral Kutxa Group in compliance with Law 10/2014 and EU Parliament and Council Directive 2013/36/EU

The present information has been compiled in compliance with the provisions of Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014, which transposed Article 89 of European Parliament and Council Directive 2013/36/EU of 26 June 2013 relating to access to the business of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (commonly known as CRD IV).

In accordance with said regulations, credit institutions are required to report to the Bank of Spain and publish annually, specifying for the countries in which they are established, the following consolidated information for each financial year:

a) Name, nature and geographical location of the activity.
b) Business volume.
c) Number of full time employees.
d) Gross profit/(loss) before taxes.
e) Corporate income tax.
f) Grants or public aid received.

Therefore, the above-mentioned information is set out below:

a) Name, nature and geographical location of the activity

Caja Laboral Popular Coop. de Crédito (hereinafter the Entity, Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was formed on 2 November 2012 as a new credit cooperative as a result of the merger, through the formation of a new entity, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. The Entity is a classified cooperative.

The Entity's bylaws state that its activities are not restricted to any specific territorial area and its objects are to meet the financial needs of its members and third parties by performing the activities typical of credit institutions. To this end, it may carry out all kinds of lending and funding operations and services which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Appendix I to these consolidated annual accounts of the Laboral Kutxa Group for the year ended 31 December 2015 lists the companies operating in each jurisdiction, including among other details their names, geographical location and area of activity.

b) Business volume, number of full-time employees, gross profit before taxes and corporate income tax

	Business volume (Thousand euro)	No. equivalent full time employees	Gross income before taxes	Corporate income tax
Spain	463,897	2,511	119,578	9,253
TOTAL	**463,897**	**2,511**	**119,578**	**9,253**

For the purposes of this information, “business volume” is considered to be the gross margin disclosed on the consolidated income statement for December 2015. The data for equivalent full time employees has been obtained from information on the workforce of each company/country at the end of 2015.

The return on the Group's assets calculated as net profits attributed to the parent company divided by total assets at 31 December 2015 stood at 0.48%.

c) Grants or public aid received

Grants and public aid received by the Laboral Kutxa Group during 2015 were not significant.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

DIRECTORS' CONSOLIDATED REPORT FOR 2015

Economic activity worldwide has remained on a low level during 2015. The economies of emerging countries slowed again while advanced economies only evidenced a slight recovery.

The revival of global growth is in doubt due to uncertainties about the situation in China, the trend in oil prices and other commodity prices and the tightening of monetary policy in the US.

In the financial sector, after a lengthy crisis involving major restructuring during which the principal issues have centred on solvency, delinquency and liquidity, the banking industry in Spain during 2015 has been characterised by extremely low rates and intense competition, further undermining the typical business margins and significantly affecting the generation of recurring income. In positive terms, we should note the reduction in bad debts and resulting decrease in the need for provisions.

In this competitive and highly demanding environment, Laboral Kutxa has succeeded in offsetting the pressure on margins in its financial activity thanks to control over operating costs and the high quality of its loan portfolio. It continues to show considerable financial strength measured in terms of solvency.

This positive evolution has been helped by our business model based on specialisation which enables a suitable and efficient allocation of resources, taking into account customers' relations and profitability. In this respect, the bank's consolidation as a leader within the bank-assurance business should be noted.

The key figures of the business are set out below:

Total assets amount to €21,585 million, a reduction of 12.7% in relation to the end of 2014 due basically to the maturity of 3,100 million obtained from the ECB.

Customer deposits amounted to €18,282.8 million, 1.8% higher than at the end of 2014. Demand deposits rose by €1,510.6 million - 18.4% - due partly to the transfer of funds from Term deposits which fell by €1,143.5 million, without including the effect of the maturity of mortgage secured bonds totalling €600 million.

Loans and advances to customers stood at €13,719.4 million at 31 December 2015. If we exclude the effect of assets acquired under repo agreements and the fluctuation in other financial assets, the traditional lending activity has declined by 3.6% although there has been a major increase in home loans, consumer loans and lending to companies.

The loan-loss ratio, calculated as the percentage represented by doubtful assets over customer loans recorded under Other resident sectors, without taking into account valuation adjustments, stood at 7.4% at end-2015, considerably lower than the industry average, which for deposit-taking entities was 10.2%.

Available-for-sale financial assets attained a figure of €4,616.3 million and their relative importance in the balance sheet fell, representing 21.4% of assets in 2015 against 25.9% in 2014. At 31 December 2015 the balance in valuation adjustments reflected net capital gains of €135.3 million.

Productivity and liquidity indicators are on comfortable and sufficient levels in both absolute and relative terms. The efficiency ratio, measured as administration expenses/gross income, stood at 52.0% in 2015 and the structural liquidity ratio, calculated in terms of loans/deposits, stood at 88.1%.

Concerning solvency, the Entity's eligible capital calculated on a consolidated basis at 31 December 2015 stands at €1,555.9 million. The CET1 (Common Equity Tier 1) ratio is 15.12%, one of the best in the sector. The total solvency ratio stands at 15.92%. The fully loaded CET1 ratio is 16.06%.

On the income statement, the following income and expense items should be noted:

Profits net of taxes amounted to €110.3 million in 2015, exceeding the forecast in the Entity's Management Plan.

Net interest income amounted to €308.9 million, in an environment of continuing low interest rates and considerable pressure on profit margins.

Dividends, net fee income, financial income and other operating results as a whole contributed €155 million in 2015, with gross income standing at €463.9 million.

Concerning costs, the savings and cost containment and rationalisation policy has enabled administration expenses to be restricted, standing at €241.4 million, a decrease of 4.8%.

Impairment losses and transfers to provisions have an impact of €91.8 million on the income statement. Provisions for loans and other financial instruments have been reduced while the prudent policies for the valuation of our contingent risks have been maintained.

The insurance business has contributed global profits of €30.4 million to the Laboral Kutxa Group due to the increase in new business and in premiums earned, and a claims ratio that has outperformed expectations.

In the property area, in 2015 this business has continued to be rationalised and the process of merging the real-estate companies and reducing the number of investees has remained on course. As in previous years, the reduction in risk with the development and construction activity has allowed the divestment commitment set at €228 million for 2015 to be met.

Fiscal Year 2016 has commenced with uncertainty in Europe as to the quality of bank assets and a rise in the cost of CDSs in European financial institutions. In addition, the main interbank benchmark, the 12-month Euribor, has dropped to negative rates for the first time.

In this complex scenario, a reduction in interest margins is expected in 2016, since the fall in financial costs will not offset the decreased contribution to the margin by lending or the fixed-interest portfolio. A stringent cost-contention policy will have to be applied which, together with the decreased requirement for provisions, will enable a slight improvement on the previous year profits.

With regard to business volumes in assets, lending to SMEs and consumer financing will increase. The major rise forecast in mortgage loans will still not offset the level of repayments and therefore the balance in this heading will continue to decline. Overall, a small reduction in loans and receivables is expected.

On the liabilities side, we envisage a decrease in traditional deposits with reductions in term deposits and increases in demand accounts, offset by the rise in assets sold under repo agreements and growth in off-balance-sheet positions.

The doubtful loans ratio will continue to fall because, as in 2015, the volume of defaulting customers will diminish while recoveries will increase.

The result of the strategic analysis conducted for the period 2016 - 2019 entails the implementation by the Parent Entity of certain challenges involving the adaptation of commercial and support structures as well as innovation and the assimilation of new technologies and new customer relations channels which require a demanding adaptation by personnel and work dynamics, aimed at boosting commercial activity and focusing our business performance on revenue generation. The purpose of these measures is to maintain profit and liquidity levels and strengthen our solvency position.

The average payment period to Group suppliers during 2015 was 14 days, inside the maximum period of 30 days stipulated in Law 15/2010 which introduced measures to combat late payment in business operations, amended by Law 31/2014 which amended the Spanish Companies Act to improve corporate governance, and taking into account the Single Additional Provision of the Resolution of 29 January 2016 by the Institute of Accountant and Auditors. The average payment period has been calculated in accordance with said law.

In accordance with applicable legislation, the Directors' Report and the Annual Corporate Governance Report of Caja Laboral Popular are attached in the following Appendix.

APPENDIX II

ANNUAL REPORT ON THE CORPORATE GOVERNMENT OF OTHER ENTITIES -OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

DATA IDENTIFYING THE ISSUER

END DATE OF THE REFERENCE YEAR 2015

C.I.F: F75076935

Corporate Name:

CAJA LABORAL POPULAR COOP. DE CRÉDITO

Business address:

PASEO JOSÉ MARÍA ARIZMENDIARRIETA S/N MONDRAGÓN
GIPUZKOA
20500
SPAIN

ANNUAL REPORT ON THE CORPORATE GOVERNMENT OF OTHER ENTITIES - OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

A OWNERSHIP STRUCTURE

A.1 Details of the most significant shareholders or participants in your entity at year-end:

Name or company name of the shareholder or participant	% of share capital
LAGUNARO EPSV	14.95%

A.2. Indicate, where appropriate, any family, commercial, contractual or company relationships that exist between the significant shareholders or participants, as far as they are known by the entity, unless they are barely relevant or only arise in the ordinary course of business:

Related names or company names	Type of relationship	Brief description

A.3 Indicate, when appropriate, any commercial, contractual or company relationships that exist between the significant shareholders or participants and the entity, unless they are barely relevant or only arise in the ordinary course of business:

Related names or company names	Type of relationship	Brief description

A.4 Indicate, when applicable, any restrictions in the exercise of the right to vote, and any restrictions in the acquisition or transfer of shares in the capital:

Yes ☒ **No** ☐

Description of the restrictions
IN COMPLIANCE WITH THAT ESTABLISHED BY COORPORATIVE LEGISLATION, NO LEGAL ENTITY MEMBER MAY HAVE A CAPITAL SHARE AND/OR VOTE OF OVER 20% AND NO NATURAL PERSON MEMBER MAY HAVE A CAPITAL SHARE AND/OR VOTE OF OVER 2.5%

B GENERAL COUNCIL OR EQUIVALENT BODY

B.1 List the constitution quorum for the general council or equivalent body established in the articles of association. Describe how it differs from the minimum member system stated in the Spanish Companies Act (LSC) or the regulations that apply to it.

IN ACCORDANCE WITH WHAT APPEARS IN COOPERATIVE LEGISLATION, THE GENERAL MEETING, REGARDLESS OF THE AGREEMENT TO BE ADOPTED, IS CONSIDERED TO BE VALIDLY CONSTITUTED, ON FIRST CALL, WHEN MORE THAN HALF OF THE SHAREHOLDERS ARE PRESENT OR REPRESENTED AND ON SECOND CALL WHEN AT LEAST 5% OF THE SHAREHOLDERS OR 100 SHAREHOLDERS ATTEND.

B.2 Explain the system for adopting company agreements. Describe how it differs from the system stated in the LSC or the regulations that apply to it.

APPLYING COOPERATIVE LEGISLATION, MOTIONS MUST BE ADOPTED, AS A GENERAL RULE, BY MORE THAN HALF OF THE VALIDLY CAST VOTES. IN THE EVENT OF MERGERS, DIVISIONS, ISSUES OF DEBENTURES AND OTHER SECURITIES, AND FOR AMENDMENT OF THE ARTICLES OF ASSOCIATION, A FAVOURABLE MAJORITY IS REQUIRED OF NO LESS THAN TWO THIRDS OF THE VOTES PRESENT OR REPRESENTED.

B.3 Indicate briefly the motions adopted at meetings of the general council or equivalent bodies held during the year corresponding to this report and the percentage of votes with which these motions were adopted.

DURING THE YEAR THE MOTIONS ADOPTED BY THE ANNUAL GENERAL MEETING HELD ON 18 April 2015, 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).

- PAY INTERESTS TO SOCIAL CAPITAL (UNANIMOUSLY).

- DISTRIBUTING THE NET SURPLUSES FROM THE YEAR, ALLOCATING 10% TO THE EDUCATION AND PROMOTION FUND, 15% TO THE INTERCOOPERATIVE SOCIAL FUND, 25% TO COOPERATIVE RETURNS AND 50% TO THE MANDATORY RESERVE FUND (UNANIMOUSLY).

- FROM THE EDUCATION AND PROMOTION FUND, ALLOCATING 9.5% FOR LOCAL DISTRIBUTION, 10.8% FOR GENERAL DISTRIBUTION AND 79.7% FOR FINANCING MCC'S COOPERATIVE INSTITUTIONS AND CONTRIBUTIONS TO THE INTERCOOPERATIVE EDUCATION AND PROMOTION FUND (UNANIMOUSLY).

- APPROVING INCOME QUOTAS AND CONTRIBUTIONS TO REGISTERED CAPITAL FROM NEW SHAREHOLDERS (UNANIMOUSLY).

- ESTABLISHING THAT THE 2016 GENERAL MEETING WILL SET THE INTEREST TO BE PAID ON THE CONTRIBUTIONS TO REGISTERED CAPITAL CORRESPONDING TO 2015, AND NONETHELESS AUTHORISING THE GOVERNING BODY TO MAKE PAYMENTS ON ACCOUNT. (UNANIMOUSLY).

- EXTENDING THE APPOINTMENT OF PRICEWATERHOUSECOOPERS AS AUDITORS OF THE ENTITY FOR THE 2015 FINANCIAL YEAR. (UNANIMOUSLY).

- MODIFYING ARTICLES 24 AND 25 OF THE GENERAL MEETING REGULATIONS WHICH GOVERN THE APPOINTMENT OF BOARD MEMBERS. (UNANIMOUSLY)

- PARTIALLY RENEWING THE GOVERNING BOARD (UNANIMOUSLY)

B.4 Indicate the address and how to access the entity web page containing information on corporate governance.

THE CONTENTS OF THE CORPORATE GOVERNANCE CAN BE ACCESSED FROM THE HOME PAGE OF THE ENTITY'S WEBSITE THROUGH THE CORPORATE WEB LINK AND, ONCE THERE, IN REPORTS AND RELEVANT EVENTS / CORPORATE GOVERNANCE.

B.5 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 motions adopted.

THERE ARE NO SYNDICATES FOR HOLDERS OF SHARES ISSUED BY THE ENTITY.

C STRUCTURE OF THE ENTITY'S ADMINISTRATION

C.1 Administrative body or board

C.1.1 Give details of the maximum and minimum number of board members or members of the administrative body set forth in the articles of association:

Maximum number of board/body members	15
Minimum number of board/body members	12

C.1.2 Complete the following table for 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 of last appointment**
TXOMIN GARCIA HERNANDEZ		29-07-15
ROBERTO RUIZ DE INFANTE AGUIRRE		30-06-12
IÑAKI JOSU GOÑI GABILONDO		30-06-12
JOSE MARIA BALZATEGUI JULDAIN		30-06-12
AINHOA GALLASTEGUI MARTINEZ		29-07-15
JOSE LUIS GARCIA GARCÍA		30-06-12
RAFAEL IDIGORAS ALBERDI		30-09-13
MARIA CARMEN INURRIA LANDERAS		29-07-15
JAVIER OLEAGA MENDIARACH		29-07-15
JESUS IGNACIO PEÑA GÓMEZ		30-04-13
ADOLFO PLAZA IZAGUIRRE		29-07-15
JOSE JAVIER SAENZ DE BURUAGA GABILONDO		30-06-12
LUIS MARIA UGARTE AZPIRI		30-06-12
ELENA ZARRAGA BILBAO		29-07-15

C.1.3 Identify, when appropriate, the board/administrative body members who 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

C.1.4 Complete the following table regarding the number of female members of the board of directors and its committees, as well as its evolution over the last four financial years:

	Number of members							
	Year 2015		Year 2014		Year 2013		Year 2012	
	Number	%	Number	%	Number	%	Number	%
Board of directors	3	21%	3	21%	3	20%	4	27%
Audit committee	2	67%	2	67%	2	50%	2	50%
Risks committee	2	40%	1	20%	-		-	
Appointments and remunerations committee	0		0		-		-	

C.1.5 Complete the following table regarding the aggregate salary of the board/administrative body members paid over the financial year:

Salary item	Thousands of Euro	
	Individual	Group
Fixed salary	131	
Variable salary	27	
Expenses		
Other payments		
TOTAL	158	

C.1.6 Identify the top management members that are not members of the board or administrative body and indicate the total payment made to them during the financial year:

Name or corporate name	Position
JULIO GALLASTEGUI ZUBIZARRETA	MANAGING DIRECTOR
CARLOS OSES IRULEGUI	PRIVATE CUSTOMER COMMERCIAL DEPARTMENT DIRECTOR AND DEPUTY GENERAL MANAGER
JOSU ARRAIZA MARTÍNEZ DE LAGRAN	BUSINESS AREA DIRECTOR
XABIER EGUIBAR GAINZA	BUSINESS DEVELOPMENT AREA DIRECTOR
NURIA AGUIRRE UNZUETA	CORPORATE MANAGEMENT DIRECTOR
JOSÉ ANTONIO UNANUE ETXEBERRIA	FINANCIAL AREA DIRECTOR
ROMAN AGUIRRE BEITIA	MEDIA AREA DIRECTOR
ALFREDO ZABALETA BARREDO	RISK AREA DIRECTOR
OSCAR EGUSKIZA SIERRASESUMAGA	RISK MANAGEMENT DIRECTOR

Total senior management payments (in thousands of euros)	**1,304**

C.1.7 Indicate whether the board's articles of association or regulations establish a limited mandate for the members of the board/administrative body:

Yes □ No ☒

Maximum number of mandate years	

C.1.8 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:

Tax	Name	Position

C.1.9 Explain, if they exist, the mechanisms established by the board or administrative body to prevent the individual and consolidated accounts they have formulated being presented at the general council or equivalent body with exceptions in the audit report.

THE GOVERNING BOARD REGULATION ADMINISTERS AN AUDIT COMMITTEE WHICH IS ASSIGNED, AMONG ITS OTHER FUNCTIONS, THE SUPERVISION OF THE ELABORATION PROCESS AND PRESENTATION OF REGULATED FINANCIAL INFORMATION AND THE SUPERVISION OF THE EFFICIENCY OF THE INTERNAL CONTROL SYSTEMS.

C.1.10 Is the secretary of the board or administrative body also a member of the board?

Yes ☒ No □

C.1.11 Indicate, if they exist, the mechanisms established to maintain the independence of the external auditor, the financial analysts, the investment banks and the classification agencies.

THE GOVERNING BOARD REGULATION ADMINISTERS AN AUDIT COMMITTEE WHICH IS ASSIGNED, AMONG ITS OTHER FUNCTIONS, THE TASK OF ESTABLISHING THE SUITABLE RELATIONSHIPS WITH THE ACCOUNT AUDITORS OR AUDIT COMPANIES IN ORDER TO RECEIVE INFORMATION REGARDING MATTERS WHICH MAY PRESENT A RISK FOR THEIR INDEPENDENCE, REQUIRING ANNUAL WRITTEN CONFIRMATION OF THIS INDEPENDENCE.

C.2. Committees of the board or administrative body

C.2.1. List the committees of the board or administrative body:

Name of the committee	No. of members
AUDIT COMMITTEE	3
APPOINTMENTS AND REMUNERATIONS COMMITTEE	5
RISKS COMMITTEE	5

C.2.2 Describe all the committees of the board or administrative body, their members and the proportion of executive, shareholding, independent and other external board members of which they are comprised (the entities which do not have the legal form of a limited company will not fill in the category of the board member in the corresponding fields and will explain the category of each board member in the text section according to its legal regime and the way in which they meet the constitution requirements of the audit committee and of the appointments and remunerations committee):

AUDIT COMMITTEE

Name	Position	Category
MARIA CARMEN INURRIA LANDERAS	CHAIR	
ADOLFO PLAZA IZAGUIRRE	MEMBER	
ELENA ZARRAGA BILBAO	MEMBER	

% of shareholding board members	
% of independent board members	
% of other external members	
Number of meetings	5

Explain the duties attributed to this committee, describe its procedures and organisation and operational rules and summarise its most notable actions during the financial year.

THE AUDIT COMMITTEE HAS THE SPECIFIC DUTIES DESCRIBED IN THE ARTICLES OF ASSOCIATION (ART. 36. NINE), IN OTHER WORDS:

A) INFORM THE GENERAL MEETING ABOUT THE ISSUES RAISED THERE BY SHAREHOLDERS ON MATTERS WITHIN THEIR COMPETENCE.

B) PROPOSE TO THE GOVERNING BODY, 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 MATTER 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.

F) ISSUE AN ANNUAL REPORT, PRIOR TO THE PUBLICATION OF THE ACCOUNTS AUDIT REPORT, EXPRESSING AN OPINION ON THE INDEPENDENCE OF THE ACCOUNT AUDITORS OR AUDIT COMPANIES. THIS REPORT MUST RULE, IN ANY CASE, REGARDING THE PROVISION OF ADDITIONAL SERVICES, REFERRED TO ABOVE.

SIMILARLY, IN VIRTUE OF ARTICLE 10.3 OF THE GOVERNING BOARD REGULATION, IT IS ASSIGNED THE POSITION OF SUPERVISOR OF COMPLIANCE WITH THE CODES OF CONDUCT AND OF THE CORPORATE GOVERNANCE RULES

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 MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES.

WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, MARIA CARMEN INURRIA (COMMITTEE CHAIRPERSON) AND ELENA ZAGARRA ARE "INDEPENDENT BOARD MEMBERS" (67% OF THE TOTAL) AND ADOLFO PLAZA IS A "WORKING PARTNER BOARD MEMBER" (33% OF THE TOTAL). THERE ARE NO SHAREHOLDING OR EXECUTIVE DIRECTORS ON THE COMMITTEE

THE "WORKING PARTNER BOARD MEMBER" IS A BOARD MEMBER WHO WORKS UNDER THE FIGURE OF WORKING PARTNER IN THE ENTITY AND DOES NOT PERFORM SENIOR MANAGEMENT DUTIES.

WITH REGARD TO THE MOST SIGNIFICANT ACTIONS OF THE AUDIT COMMITTEE IN 2015, THE FOLLOWING ARE HIGHLIGHTED:

- IT HAS SUPERVISED THE PROCESS OF PREPARATION AND PRESENTATION OF THE PUBLISHED FINANCIAL INFORMATION , THROUGH THE DEPOSITIONS OF THE INTERNAL AUDIT DEPT., HIGHLIGHTING THE FOLLOWING VERIFICATIONS:

    - REVIEWING THE INDIVIDUAL AND CONSOLIDATED ACCOUNTS PREPARED BY THE ENTITY AND THE CORRESPONDING MANAGEMENT REPORTS
    - REVIEWING THE OWN RESOURCES DECLARATION SENT TO THE BANK OF SPAIN
    - REVIEWING THE INFORMATION OF PRUDENTIAL RELEVANCE PUBLISHED BY THE ENTITY
    - REVIEWING THE PUBLIC FINANCIAL ACCOUNTS SENT TO THE BANK OF SPAIN

- IT HAS SUPERVISED THE INTERNAL AUDIT DUTIES, ENSURING ITS INDEPENDENCE AND EFFECTIVENESS, RECEIVING PERIODIC INFORMATION ON THE ACTIVITIES CARRIED OUT BY THE INTERNAL AUDIT DEPT.
- IT HAS ADOPTED THE AGREEMENT TO PROPOSE TO THE GOVERNING BOARD THE EXTENSION OF THE EXTERNAL AUDIT CONTRACT
- IT HAS MONITORED THE RESULT OF THE EXTERNAL AUDIT, HOLDING JOINT MEETINGS WITH THE EXTERNAL AUDITOR, ANALYSING AND REVIEWING THE ASPECTS CONSIDERED TO BE ESPECIALLY RELEVANT
- IT HAS EXPRESSED AN OPINION, CONFIRMING THE INDEPENDENCE OF THE EXTERNAL AUDITORS, PRIOR TO THE AUDIT REPORT BEING ISSUED.
- IT HAS ANALYSED THE MAIN IMPLICATIONS DERIVED FROM THE APPROVAL OF LAW 22/2015 DATED 20 JULY ON AUDITING OF ACCOUNTS
- IT HAS ANALYSED THE MAIN IMPLICATIONS DERIVED FROM THE NEW SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

Identify the board member who is a member of the audit committee and who has been appointed taking into account their knowledge and experience in terms of accounting, auditing or both and report on the number of years that the Chairperson of this committee has held the position.

Name of the board member with	ELENA ZARRAGA BILBAO
No. of years the chairperson has	0

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Name	Position	Category
ROBERTO RUIZ DE INFANTE AGUIRRE	CHAIR	
TXOMIN GARCIA HERNANDEZ	MEMBER	
JOSE LUIS GARCIA GARCÍA	MEMBER	
JOSE JAVIER SAENZ DE BURUAGA GABILONDO	MEMBER	
IÑAKI JOSU GOÑI GABILONDO	MEMBER	

% of shareholding board members	
% of independent board members	
% of other external members	
Number of meetings	4

Explain the duties attributed to this committee, describe its procedures and organisation and operational rules and summarise its most notable actions during the financial year.

THE APPOINTMENT AND REMUNERATIONS COMMITTEE HAS THE SPECIFIC DUTIES DESCRIBED IN THE GOVERNING BOARD REGULATION (ART 11.2), I.E.:

- THOSE ASSIGNED IN THE SUITABILITY MANUAL FOR BOARD MEMBERS AND KEY PERSONNEL.
- TO ESTABLISH A REPRESENTATION TARGET FOR THE LESS REPRESENTED GENDER IN THE GOVERNING BOARD AND TO PREPARE GUIDELINES ON HOW TO REACH THIS TARGET
- TO PROPOSE TO THE GOVERNING BODY THE GENERAL REMUNERATIONS POLICY AND THE REMUNERATIONS POLICY FOR THE IDENTIFIED GROUP.
- TO SAFEGUARD COMPLIANCE WITH THE RETRIBUTIONS POLICIES, TO PERIODICALLY REVIEW THOSE WHICH ARE APPLICABLE TO DIRECTORS AND TO ENSURE THE UNDERTAKING OF AN INDEPENDENT ANNUAL EVALUATION OF THEIR APPLICATION.

THE REGULATION ESTABLISHES THAT THE APPOINTMENTS AND REMUNERATIONS COMMITTEE WILL MEET WHENEVER IT IS CONSIDERED APPROPRIATE WHEN CALLED BY ITS CHAIR OR AT THE REQUEST OF ANY OF ITS MEMBERS. EACH OF THEM HAS ONE VOTE AND MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES.

WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, ROBERTO RUIZ DE INFANTE (COMMITTEE CHAIR) AND JOSE JAVIER SAENZ DE BURUAGA ARE "INDEPENDENT BOARD MEMBERS" (40% OF THE TOTAL), JOSE LUIS GARCÍA AND IÑAKI JOSU GOÑI ARE "WORKING PARTNER BOARD MEMBER" (40% OF THE TOTAL) AND TXOMIN GARCA IS "OTHER EXTERNAL BOARD MEMBER" (20% OF THE TOTAL). THERE ARE NO SHAREHOLDING OR EXECUTIVE DIRECTORS ON THE COMMITTEE.

THE "WORKING PARTNER BOARD MEMBER" IS A BOARD MEMBER WHO WORKS UNDER THE FIGURE OF WORKING PARTNER IN THE ENTITY AND DOES NOT PERFORM SENIOR MANAGEMENT DUTIES.

THE "OTHER EXTERNAL BOARD MEMBER" IS A BOARD MEMBER WHO DOES NOT MEET THE REQUIREMENTS TO BE INCLUDED IN THE OTHER CATEGORIES.

WITH REGARD TO THE MOST SIGNIFICANT ACTIONS OF THE APPOINTMENTS AND

REMUNERATIONS COMMITTEE IN 2015, THE FOLLOWING STAND OUT:

- UPDATE OF THE "REMUNERATIONS POLICY OF CAJA LABORAL POPULAR COOP.DE CRÉDITO", PROPOSING NEW INCORPORATIONS TO THE IDENTIFIED GROUP AND ASSESSING THEIR SUITABILITY.
- WITHIN THE RENEWAL PROCESS OF THE GOVERNING BOARD, THE EVALUATION AND ANALYSIS OF THE CANDIDATES TO THE GOVERNING BOARD UNDER THE TERMS PROVIDED FOR BY THE "MANUAL ON THE SELECTION PROCEDURE AND SUITABILITY EVALUATION OF BOARD MEMBERS AND KEY PERSONNEL", PREPARING A RECOMMENDATIONS REPORT FOR THE GOVERNING BOARD.
- THE CONTINUED EVALUATION OF THE SUITABILITY OF THE MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGEMENT AND KEY PERSONNEL AND THE ASSESSMENT OF THE BALANCE OF KNOWLEDGE, CAPACITY, DIVERSITY AND EXPERIENCE ON THE GOVERNING BOARD.
- WRITING OF THE PROPOSAL FOR THE POLICY ON THE SELECTION OF CANDIDATES FOR THE GOVERNING BOARD, SETTING A TARGET FOR THE REPRESENTATION OF THE LEAST REPRESENTED GENDER.
- PREPARATION OF THE PROPOSAL FOR THE GOVERNING BOARD POLICY ON THE SELECTION, APPOINTMENT AND SUCCESSION OF THE MEMBERS OF SENIOR MANAGEMENT.

RISKS COMMITTEE

Name	Position	Category
ELENA ZARRAGA BILBAO	CHAIR	
TXOMIN GARCIA HERNANDEZ	MEMBER	
LUIS Mª UGARTE AZPIRI	MEMBER	
RAFAEL IDIGORAS ALBERDI	MEMBER	
AINHOA GALLASTEGUI MARTINEZ	MEMBER	

% of executive board members	
% of shareholding board members	
% of independent board members	
% of other external members	
Number of meetings	7

Explain the duties attributed to this committee, describe its procedures and organisation and operational rules and summarise its most notable actions during the financial year.

✓ THE RISKS COMMITTEE HAS THE SPECIFIC DUTIES DESCRIBED IN THE GOVERNING BOARD REGULATIONS (ART 11 BIS) I.E.:

- TO ADVISE THE GOVERNING BOARD WITH REGARD TO GLOBAL RISK PROPENSITY, CURRENT AND FUTURE, OF THE ENTITY AND ITS STRATEGY ON THIS MATTER, ASSISTING IT IN THE MONITORING OF THE APPLICATION OF THIS STRATEGY AND THE SPECIFIC POLICIES OF MANAGEMENT, SUPERVISION AND REDUCTION OF RISKS TO WHICH THE ENTITY IS OR MAY BE EXPOSED.

- TO ENSURE THAT THE ASSETS AND LIABILITIES PRICING POLICY OFFERED TO CLIENTS TAKES INTO ACCOUNT THE BUSINESS MODEL AND THE RISK STRATEGY OF THE ENTITY. OTHERWISE, TO PRESENT THE GOVERNING BOARD WITH A PLAN TO RESOLVE IT.

- TO ADVISE THE GOVERNING BOARD REGARDING THE MANAGEMENT AND SUPERVISION OF ALL THE RELEVANT RISKS OF THE ENTITY.

- TO ADVISE THE GOVERNING BOARD REGARDING STRESS TESTS AND CAPITAL PLANNING IN RELATION TO RISKS.

- TO ENSURE THAT SUITABLE RESOURCES ARE ASSIGNED TO RISK MANAGEMENT AND THE EFFICIENCY OF THE INTERNAL ORGANISATION.

- TO ENSURE THAT THERE ARE EFFICIENT CHANNELS OF INFORMATION IN TERMS OF RISKS FROM THE GOVERNING BOARD TO THE ORGANISATION AND VICE VERSA, DEFINING, TOGETHER WITH THE GOVERNING BOARD, THE NATURE, QUANTITY, FORMAT AND FREQUENCY OF THE INFORMATION ON RISKS WHICH MUST BE RECEIVED BY THE COMMITTEE AND THE GOVERNING BOARD.

- TO SUPERVISE THE VALUATION OF ASSETS, THE USE OF EXTERNAL CREDIT CLASSIFICATIONS AND THE INTERNAL MODELS REGARDING RISKS.

- TO HELP ESTABLISH RATIONAL REMUNERATIONS PRACTICES AND POLICIES. TO EXAMINE WHETHER THE INCENTIVES POLICY PLANNED IN THE REMUNERATION SYSTEM TAKES INTO ACCOUNT THE RISK, CAPITAL, LIQUIDITY AND PROBABILITY AND OPPORTUNITY OF PROFIT.

✓ THE REGULATION ESTABLISHES THAT THE RISKS COMMITTEE WILL MEET WHENEVER IT IS CONSIDERED APPROPRIATE, WHEN CALLED BY ITS CHAIR OR AT THE REQUEST OF ANY OF ITS MEMBERS. EACH OF THEM HAS ONE VOTE AND MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES

✓ WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, ELENA ZARRAGA (COMMITTEE CHAIR) AND RAFAEL IDIGORAS ARE "INDEPENDENT BOARD MEMBERS" (40% OF THE TOTAL), AINHOA GALLASTEGUI ES IS "WORKING PARTNER BOARD MEMBER" (20% OF THE TOTAL), TXOMIN GARCÍA IS "OTHER EXTERNAL BOARD MEMBER" (20% OF THE TOTAL) AND LUIS MARIA UGARTE IS "SHAREHOLDING BOARD MEMBER" (20% OF THE TOTAL). THERE ARE NO EXECUTIVE BOARD MEMBERS ON THE COMMITTEE

✓ THE "WORKING PARTNER BOARD MEMBER" IS A BOARD MEMBER WHO WORKS UNDER THE FIGURE OF WORKING PARTNER IN THE ENTITY AND DOES NOT PERFORM SENIOR MANAGEMENT DUTIES.

✓ THE "OTHER EXTERNAL BOARD MEMBER" IS A BOARD MEMBER WHO DOES NOT MEET THE REQUIREMENTS TO BE INCLUDED IN THE OTHER CATEGORIES

✓ WITH REGARD TO THE ACTIVITY CARRIED OUT IN 2015 IN THE PERFORMANCE OF ITS DUTIES, THE RISKS COMMITTEE HAS DEVELOPED THE FOLLOWING:

- MONITORING AND CONTROL OF ALL RISKS THROUGH THE QUARTERLY DEPOSITIONS OF THE COAP.
- IT HAS ANALYSED AND VALIDATED THE MODIFICATIONS OF THE VARIOUS RISKS POLICIES AND MANUALS.
- IT HAS ANALYSED AND VALIDATED THE UPDATE OF LIMITATIONS AND COMPETENCES FOR THE VARIOUS TYPES OF RISKS.
- IT HAS ANALYSED AND VALIDATED THE RISK APPETITE FRAMEWORK (RAF) AND THE RISK APPETITE STATEMENT (RAS).

D LINKED OPERATIONS AND INTERGROUP OPERATIONS

D.1 Give details of the operations performed between the entity or entities in its group, and the shareholders, cooperative participants, holders of property rights or any other party equivalent to the entity.

D.2 Give details of the operations performed between the entity or entities in its group, and the entity's administrators or members of the administrative body or directors.

D.3 Give details of the intergroup operations.

D.4 Give details of the mechanisms established to detect, determine and resolve possible conflicts of interest between the entity or its group, and its board/administrative body members or directors.

IN ADDITION TO THE LEGALLY ESTABLISHED POSSIBILITY OF CHALLENGING THE MOTIONS MADE BY THE GENERAL MEETING AND THE GOVERNING BODY THAT HARM THE INTERESTS OF CAJA LABORAL, TO THE BENEFIT OF ONE OR MORE SHAREHOLDERS OR THIRD PARTIES, THE FOLLOWING SPECIFIC REGULATIONS CAN BE APPLIED, REFERRING TO POSSIBLE CONFLICTS OF INTERESTS:

A) IN COMPLIANCE WITH ARTICLE 7 OF THE RISKS POLICY MANUAL, AND AS A GENERAL CRITERIA, ALL THE RISKS OPERATIONS PROPOSED BY THE MEMBERS OF THE GOVERNING BOARD, GENERAL MANAGER, THEIR FAMILY MEMBERS UP TO SECOND DEGREE CONSANGUINITY AND RELATED COMPANIES WILL REQUIRE A CENTRALISED APPROVAL AND MUST BE SUBJECTED TO THE APPROVAL OR RATIFICATION OF THE GOVERNING BOARD, REQUESTING AUTHORISATION FROM THE BANK OF SPAIN WHEN EXCEEDING THE LIMITS AND TERMS ESTABLISHED IN STANDARD 35 OF THE MEMO 2/2016 OF THE BANK OF SPAIN REGARDING SUPERVISION AND SOLVENCY OR OTHERWISE BEING THE OBJECT OF IMMEDIATE NOTIFICATION.

B) THE NEED TO MEET THE REQUIREMENTS WHICH ARE LATER INDICATED FOR THE AGREEMENTS OF THE GOVERNING BOARD REGARDING RISK OPERATIONS SPECIFIED IN LETTER A) ABOVE. THE REQUIREMENTS ARE AS FOLLOWS:

- THE AGREEMENT MUST BE ADOPTED BY SECRET BALLOT, AFTER HAVING CLEARLY INCLUDED THE MATTER IN THE AGENDA WITH DUE CLARITY.

- THE MOTION 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 MOTION ADOPTED.

THESE SAME REQUIREMENTS MUST BE COVERED WHEN IT IS A MATTER OF CONSTITUTING, SUSPENDING, MODIFYING, RENEWING OR CANCELLING CAJA LABORAL'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%.

THE APPOINTMENT OF BOARD MEMBERS IS SUBJECT TO A SUITABILITY MANUAL WHICH REQUIRES A SIGNED DECLARATION STATING THE ABSENCE OF CONTINUED OR STRUCTURAL CONFLICTS WITH THE INTERESTS OF CAJA LABORAL AS A REQUIREMENT TO PROVE THE SUITABILITY OF THE BOARD MEMBER. IN THE SAME WAY, ON AN ANNUAL BASIS, THIS SITUATION IS VERIFIED WITHOUT PREJUDICE TO THE FACT THAT THE BOARD MEMBER IS RESPONSIBLE BEFORE CAJA LABORAL FOR IMMEDIATELY COMMUNICATING ANY CIRCUMSTANCE WHICH MAY AFFECT THEIR SUITABILITY, AND IS RESPONSIBLE FOR ANY LOSS SUFFERED BY THE ENTITY DUE TO THE ABSENCE OR DELAY IN THIS COMMUNICATION.

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Explain the scope of the entity's Risk Management System.

THE RISKS MANAGEMENT SYSTEM WORKS AS A WHOLE, WITH THE RESPONSIBILITY OF ADMISSION, MONITORING AND RECOVERIES OF TRADITIONAL CREDIT RISK AND THE MEASUREMENT AND CONTROL OF RISKS REGARDING INTEREST RATES, LIQUIDITY, MARKET AND OPERATIONS BEING CENTRALISED IN THE RISKS AREA. THE MONITORING OF THE DIFFERENT RISKS ARE REPORTED MONTHLY, EXCEPT OPERATIONAL RISK, TO THE ASSETS AND LIABILITY COMMITTEE, AND THE MONITORING OF OPERATIONAL RISKS IS REPORTED QUARTERLY TO THE OPERATIONAL RISK COMMITTEE.

THE MANAGEMENT OF ALL RISKS IS CENTRALISED, WITH THE ASSETS AND LIABILITIES COMMITTEE, AND THE OPERATIONAL RISK COMMITTEE IN THE CASE OF OPERATIONAL RISK, BEING RESPONSIBLE FOR THIS TASK. EXCEPT FOR THE TREASURY AND CAPITALS MARKET RISKS WHICH ARE EXPRESSLY DELEGATED TO THE TREASURY DEPARTMENT, AND THE CREDIT RISK FOR THAT RELATED TO ATTRIBUTIONS CORRESPONDING TO BRANCHES.

E.2 Identify the bodies of the entity responsible for the development and execution of the Risk Management System.

GOVERNING BODY: HIGHEST ADMINISTRATIVE BODY ULTIMATELY RESPONSIBLE FOR THE SURVEILLANCE AND SUPERVISION OF ALL RISKS INCURRED BY THE ENTITY. THE GENERAL MANAGEMENT IS REQUIRED TO PROVIDE THOROUGH RISK CONTROL AND SYSTEMATIC RISK DISCLAIMER. IT HAS DIRECT PRESENCE IN CERTAIN RISK COMMITTEES.

GENERAL MANAGEMENT: RESPONSIBLE FOR THE IMPLEMENTATION OF RISK POLICIES, THROUGH DELEGATION BY THE GOVERNING BODY. IT HAS ORGANISED RISK DUTIES UNDER THE PREMISE OF SEPARATION OF ROLES BETWEEN SALES MANAGEMENT AND ASSUMPTION OF RISKS.

THE RISKS AREA REPORTS QUARTERLY ON RISKS MONITORING AND CONTROL TO THE RISKS COMMITTEE AND THE GOVERNING BODY, SPECIFYING THE LEVEL OF COMPLIANCE WITH THE DIFFERENT LIMITS AND THE PROCEDURES ESTABLISHED.

ASSETS AND LIABILITIES COMMITTEE: BODY WHICH CONTROLS INTEREST RATE (STRUCTURAL), LIQUIDITY, MARKET AND CREDIT RISKS. THE GLOBAL RISK CONTROL DEPT. REPORTS MONTHLY ON RISKS MONITORING, AND THIS COMMITTEE MAKES THE RELEVANT MANAGEMENT DECISIONS IN RELATION TO LIQUIDITY, INTEREST RATE AND MARKET RISKS.

OPERATIONAL RISK COMMITTEE: OPERATIONAL RISK CONTROLLING BODY. THE GLOBAL RISK CONTROL DEPT. REPORTS QUARTERLY ON INFORMATION RELATED TO OPERATIONAL RISKS MONITORING, AND THIS COMMITTEE MAKES THE RELEVANT DECISIONS IN RELATION TO THIS RISK.

RISKS AREA: CENTRALISES RESPONSIBILITY FOR ADMISSION, MONITORING AND RECOVERIES FOR INDIVIDUAL AND COMPANY CREDIT RISK AND THE CONSTRUCTION AND MAINTENANCE OF CREDIT RISK INTERNAL MODELS, AS WELL AS THE MEASUREMENT AND CONTROL OF LIQUIDITY, INTEREST RATE, MARKET AND OPERATIONAL RISKS.

GLOBAL RISKS CONTROL DEPT.: DEPENDS ON THE RISKS AREA. IT PROVIDES A GLOBAL VISION OF ALL RISKS BY BEING CENTRALISED IN A SINGLE DEPT. THE MEASUREMENT AND CONTROL OF ALL RISKS, REPORTING TO THE COAP. IT IS RESPONSIBLE FOR THE PREPARATION OF CREDIT RISK MONITORING AND INTERNAL ADMISSIONS MODELS, AS WELL AS THE MEASUREMENT AND CONTROL OF LIQUIDITY, INTEREST RATE, MARKET AND OPERATIONAL RISKS.

RISKS MANAGEMENT DEPT.: DEPENDS ON THE RISKS AREA. IT IS IN CHARGE OF MANAGING PRIVATE AND COMPANY CREDIT RISK.

DEPT. OF MONITORING AND RECOVERIES: DEPENDS ON THE RISKS AREA. RESPONSIBLE FOR MONITORING COMPANIES RISK BEFORE IT ENTERS INTO ARREARS AND FOR RECOVERING THE IRREGULAR INVESTMENT SITUATIONS ARISING FROM THE ARREARS OF CLIENTS OF THE ENTITY'S RETAIL NETWORK. IT INTERVENES IN THE SANCTION OF DOUBTFUL LOANS OF A CERTAIN AMOUNT THROUGH ITS PARTICIPATION IN THE DOUBTFUL LOANS COMMITTEE.

LEGAL ADVISORY DEPT.: DEPENDS ON THE RISKS AREA. IT PROVIDES LEGAL DOCUMENTARY COVER AND SUPPORT TO THE RISK OPERATIONS AS WELL AS TO THE MANAGEMENT OF DISPUTES WITHIN THE COMPANY NETWORK.

TREASURY DEPT.: DEPENDS ON THE FINANCIAL AREA, IT MANAGES THE CREDIT RISK WITH FINANCIAL INSTITUTIONS AND PRIVATE FIXED INCOME, MARKET RISKS, SHORT-TERM LIQUIDITY RISK AND POSITIONS ARISING FROM THE DECISIONS MADE IN THE COAP.

REGULATORY COMPLIANCE DEPT.: INTERNAL CONTROL ORGANISATION AND MONITORING OF THE DIFFERENT SCOPES OF REGULATORY COMPLIANCE. IT COORDINATES THE ENTITY'S DIFFERENT AREAS AND DEPTS.

NETWORK OF BRANCHES: FIRST PHASE IN THE INDIVIDUALS AND COMPANIES CREDIT RISK ADMISSION PROCESS, UP TO THE LIMIT OF THEIR SCOPE IN WHICH THEY HAVE DELEGATED FUNCTIONS DUE TO SCORING LEVELS, ALERTS AND COMPETENCES WHICH MAKE UP THE ENTITY'S RISK POLICY. IF THE RISK ADMISSION EXCEEDS THE RETAIL NETWORK RESPONSIBILITIES, THE SANCTION IS TAKEN BEFORE THE RISKS AREA.

INTERNAL AUDIT: INDEPENDENT AND OBJECTIVE ROLE OF ASSURANCE AND QUERIES, PROVIDING A SYSTEMATIC AND DISCIPLINED APPROACH TO ASSESS AND IMPROVE THE EFFICIENCY OF RISK MANAGEMENT, CONTROL AND GOVERNANCE PROCESSES.

E.3 Indicate the main risks which may affect the attainment of the business goals.

THE CREDIT RISK OF TRADITIONAL BUSINESS WITH INDIVIDUALS AND COMPANIES (INCLUDING CONCENTRATION RISK), STRUCTURAL INTEREST RATE RISK, LIQUIDITY RISK, TREASURY AND CAPITAL MARKET RISKS (COUNTERPART, COUNTRY, CONCENTRATION AND MARKET RISKS), OPERATIONAL RISK, REPUTATIONAL RISK AND BUSINESS RISK.

E.4 Identify whether the entity has a risk tolerance level.

THE ENTITY HAS LEVELS OF RISK TOLERANCE DEFINED IN THE RISK APPETITE FRAMEWORK. THE MAIN LEVELS OF TOLERANCE REFER TO CAPITAL, LIQUIDITY AND PROFITABILITY.

E.5 Indicate which risks have materialised during the financial year.

REGARDING THE INTEREST RATE RISK, THE LIMIT SET BY THE GOVERNING BODY CONTROLLED BY THE COAP HAS NEVER BEEN EXCEEDED.

FOR MARKET RISKS, THE EXCESSES ARE SUPERVENED, I.E., MOTIVATED BY THE REDUCTION OF LIMITS AND NOT BY INCREASES OF THE POSITION. IN THESE CASES THE CONTROL SYSTEMS HAVE WORKED PROPERLY, WITH THE COAP HAVING BEEN INFORMED OF THE MENTIONED EXCESSES AND HAVING DECIDED WHETHER OR NOT TO MAINTAIN THE POSITION.

REGARDING THE LIQUIDITY RISK, THE SYSTEMATIC MONITORING OF THE ENTITY'S LIQUIDITY AND THE ANALYSIS OF ITS DEVIATIONS FROM THE FORECASTS AND THE MONTHLY TREASURY PLANS ALLOW SUFFICIENT TIME TO ANTICIPATE POSSIBLE MID-TERM IMPACTS, GENERATING THE NECESSARY CORRECTIVE ACTIONS IN ENOUGH TIME. THE LIQUIDITY RATIOS, INCLUDING THE LCR, SHOW EXCELLENT LEVELS. 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. IN OPERATIONS WITH FINANCIAL INSTITUTIONS AND LARGE CORPORATIONS, THE LIMITS HAVE NOT BEEN EXCEEDED DURING THE FINANCIAL YEAR.

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.

WITH REGARD TO REPUTATIONAL RISK, THE SITUATIONS ARISING FROM BUSINESS WITH THE CLIENTÈLE WHICH HAS GENERATED NEGATIVE PUBLICITY IS BEING MANAGED AND PROVISIONS HAVE BEEN AGREED DURING THE YEAR IN ANTICIPATION OF FUTURE NEEDS.

E.6 Explain the response and supervision plans for the main risks of the entity.

INTERNAL SUPERVISION OF THE RISKS OF THE ENTITY IS DETERMINED BY THE ACTION OF INTERNAL AUDIT, WHICH ATTEMPTS TO ASSES AND IMPROVE THE EFFICIENCY OF THE RISKS CONTROL AND MANAGEMENT PROCESSES.

F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS RELATED TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (FIICS)

Describe the mechanisms which form the risk control and management systems related to the process of issuing financial information (FIICS) of the entity.

F.1 Entity control environment

Give details, highlighting the main characteristics of, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of a suitable and effective FIICS; (ii) its implementation; and (iii) its supervision.

CAJA LABORAL HAS INTERNAL CONTROL MECHANISMS IMPLEMENTED IN ORDER TO GUARANTEE THAT THE FINANCIAL INFORMATION PUBLISHED IN THE MARKETS, CONCERNING BOTH THE ENTITY AND THE GROUP, IS COMPLETE, RELIABLE AND APPROPRIATE. THIS PROCESS HAS BEEN REINFORCED WITH THE COMPLETION DURING 2014 OF THE FINANCIAL INFORMATION INTERNAL CONTROL SYSTEM (HEREINAFTER, FIICS).

IN SECTION 3.6. "RELIABILITY OF THE INFORMATION" OF THE CODE OF ETHICS AND PROFESSIONAL CONDUCT OF CAJA LABORAL DEFINES BOTH THE GOVERNING BODIES AND THE ROLES ASSIGNED TO EACH OF THEM, IN RELATION TO FIICS:

*“THE **CAJA LABORAL GOVERNING BODY** IS THE PARTY ULTIMATELY RESPONSIBLE FOR ESTABLISHING, MAINTAINING AND GUARANTEEING A SUITABLE AND EFFICIENT FIICS, WHICH CONTROLS AND ENSURES THAT THE FINANCIAL INFORMATION PUBLISHED IN THE MARKETS, CONCERNING BOTH THE ENTITY ITSELF AND THE GROUP IS COMPLETE, RELIABLE AND SUITABLE.”*

*"THE **GOVERNING BODY AND THE** INTERNAL AUDIT DEPT. ARE RESPONSIBLE FOR DESIGNING AND IMPLEMENTING EFFECTIVE CONTROL PROCEDURES TO PERMANENTLY GUARANTEE THE RELIABILITY OF THE FINANCIAL INFORMATION SUPPLIED TO THE MARKET. TO THIS END, IT WILL SUPPLY THE ENTITY WITH SUFFICIENT HUMAN AND MATERIAL RESOURCES, PROVIDING THE PEOPLE INVOLVED IN THE PREPARATION OF THE FINANCIAL INFORMATION WITH THE NECESSARY TRAINING FOR THEM TO PERFORM THEIR TASKS."*

THE **AUDIT COMMITTEE** IS IN CHARGE OF SUPERVISING THE CORRECT WORKING OPERATION OF THE FIICS THROUGH MONITORING OF THE PREPARATION AND PRESENTATION PROCESS OF THE REGULATED FINANCIAL INFORMATION AND, ESPECIALLY, THE LEGAL REQUIREMENTS AND CORRECT APPLICATION OF ACCOUNTING PRINCIPLES WHICH ARE GENERALLY ACCEPTED. FOR THIS TASK, IT HAS THE COLLABORATION OF THE INTERNAL AUDIT DEPT. WHICH ASSISTS THE AUDIT COMMITTEE IN REPORTING ON THE SUPERVISION OF THE CORRECT DESIGN AND IMPLEMENTATION OF THE RISK CONTROL AND MANAGEMENT SYSTEMS, INCLUDING THE FIICS, AND WHICH SUPERVISES THEIR CORRECT AND EFFICIENT WORKING ORDER.

LASTLY, THE **MANAGEMENT CONTROL AND PLANNING DEPARTMENT.**, DEPENDENT ON THE FINANCIAL AREA MANAGEMENT, COOPERATES IN THE DESIGN AND IMPLEMENTATION OF RISK CONTROL AND MANAGEMENT SYSTEMS, ESPECIALLY THAT REGARDING THE PROCESS OF PREPARATION, PRESENTATION AND INTEGRITY OF FINANCIAL INFORMATION WHICH IS DISSEMINATED IN THE MARKETS.

F.1.2. If they exist, especially regarding the process of preparing financial information, the following elements:

- Departments and/or mechanisms responsible: (i) For the design and review of the organisational structure; (ii) for clearly defining the lines of responsibility and authority, with appropriate distribution of tasks and roles; and (iii) for there being sufficient procedures for their correct dissemination within the company.

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.

THE ORGANISATION DEPT. 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.

IN 2015 IT COMPLETED THE ORGANISATION MANUAL, A SINGLE REPOSITORY FOR THE TASKS PERFORMED IN THE ORGANISATION WHICH WILL BE PUBLISHED ON THE CORPORATE INTRANET ACCESSIBLE BY ALL THE STAFF, TOGETHER WITH THE GENERAL FLOW CHART OF THE ENTITY, IN THE FIRST QUARTER OF 2016.

- Code of conduct, approving body, level of dissemination and instruction, principles and values included (indicating whether there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing non-compliance and for proposing corrective actions and disciplinary measures.

THE ENTITY HAS A CODE OF ETHICS AND PROFESSIONAL CONDUCT, THE LAST UPDATE OF WHICH WAS APPROVED BY ITS GOVERNING BOARD IN JUNE 2015.

THE CODE OF ETHICS AND PROFESSIONAL CONDUCT INCLUDES, IN SECTION 3.6., ASPECTS TO BE TAKEN INTO ACCOUNT REGARDING THE RELIABILITY OF THE FINANCIAL INFORMATION, AMONG WHICH THE FOLLOWING STAND OUT:

- ✓ *"CAJA LABORAL IS RESPONSIBLE FOR PROVIDING RELIABLE, ACCURATE, COMPLETE AND TIMELY INFORMATION ON ITS FINANCIAL STATEMENTS AND ON EVENTS WHICH MAY HAVE A SIGNIFICANT IMPACT ON THESE.*

- ✓ *IN ADDITION TO THE PROCEDURES ESTABLISHED IN THE GROUP TO ENSURE THAT THE FINANCIAL INFORMATION IS PREPARED IN COMPLIANCE WITH THE VALUATION REGULATIONS AND PRINCIPLES IN FORCE, ALL THE WORK ASSOCIATES AND EMPLOYEES HAVE THE OBLIGATION TO DILIGENTLY COMPLY WITH THEIR TASKS REGARDING THE RECORDING AND TREATMENT OF THE INFORMATION, WHICH CONSTITUTES THE BASIS OF THE GROUP'S PUBLIC FINANCIAL INFORMATION PREPARATION PROCESS.*

- ✓ *THE APPLICATION OF THIS RESPONSIBILITY IS ESPECIALLY IMPORTANT WITH REGARD TO THE DATA AND REPORTS WHICH ARE REQUIRED FOR PREPARING THE GROUP'S FINANCIAL STATEMENTS, AS ITS ADEQUATE RECORD AND INTERPRETATION ARE ESSENTIAL IN ORDER TO ENSURE A CORRECT APPLICATION OF THE RELEVANT VALUATION CRITERIA FOR EACH ACCOUNTING BALANCE, TRANSACTION OR CONTINGENCY".*

IN JUNE 2015 A MANUAL WAS APPROVED FOR THE PREVENTION OF AND RESPONSE TO OFFENCES AND THE CORRESPONDING PENAL COMPLIANCE POLICY, THEREBY RATIFYING THE FIRM STANCE OF CAJA LABORAL TO MAINTAIN A RESPECTFUL CONDUCT WITH BOTH REGULATIONS AND ETHICAL STANDARDS AND SETTING FOR THIS PURPOSE A FRAMEWORK OF COMPLIANCE PRINCIPLES WITH REGARD TO PENAL ISSUES.

IN VIRTUE OF THIS MANUAL, THE ETHICS COMMITTEE ASSUMES THE ROLE OF ENSURING COMPLIANCE WITH THE PRINCIPLES OF THE CODE OF ETHICS AND PROFESSIONAL CONDUCT, IN GENERAL, AND THE MONITORING OF POTENTIALLY ILLICIT CONDUCTS FROM A CRIMINAL PERSPECTIVE.

FURTHERMORE, CAJA LABORAL ALSO HAS AN INTERNAL CODE OF CONDUCT IN THE AREA OF THE SECURITIES MARKET, WHICH APPLIES TO THE MEMBERS OF THE GOVERNING BOARD OF CAJA LABORAL, MEMBERS OF THE BOARDS OF DIRECTORS OF THE GROUP'S COMPANIES AND TO ALL THOSE PEOPLE, WHETHER OR NOT THEY ARE MANAGERS WHOSE WORK IS DIRECTLY OR MAINLY RELATED TO THE ACTIVITIES AND SERVICES OF THE ENTITY IN THE SECURITIES MARKET AREA OR WHO FREQUENTLY OR USUALLY HAVE ACCESS TO RELEVANT INFORMATION ABOUT CAJA LABORAL.

- Complaints channel, which allows the Audit Committee to be notified of any financial or accounting irregularities, as well as any breaches in the code of conduct and any irregular activities in the organisation, informing, where applicable, if it is of a confidential nature.

  DUE TO THE APPROVAL OF THE MANUAL ON PREVENTION AND RESPONSE TO OFFENCES, THE COMPLAINTS CHANNEL IS MANAGED BY THE ETHICS COMMITTEE OF WHICH THE INTERNAL AUDIT DIRECTOR IS A MEMBER.

  THIS COMPLAINTS CHANNEL IS AVAILABLE TO ALL PARTNERS, EMPLOYEES AND ADMINISTRATORS OF THE DIFFERENT COMPANIES WHICH ARE PART OF THE GROUP. ITS OPERATIONAL REGIME IS PART OF THE ENTITY'S MANUAL ON PREVENTION AND RESPONSE TO OFFENCES.

  THROUGH THIS CHANNEL, THE ETHICS COMMITTEE OF WHICH THE INTERNAL AUDIT DIRECTOR IS A MEMBER, IS INFORMED OF ANY POTENTIAL NON-COMPLIANCE WITH THE CODE OF ETHICS AND PROFESSIONAL CONDUCT, OF OPERATIONS AND BEHAVIOUR CONTRARY TO THE LEGISLATION IN FORCE AND THE INTERNAL REGULATIONS AND ANY POTENTIALLY SIGNIFICANT IRREGULARITIES, ESPECIALLY FINANCIAL AND ACCOUNTING IRREGULARITIES.

  THE ENTITY'S MANUAL ON PREVENTION AND RESPONSE TO OFFENCES DESCRIBES THE SCOPE, CONTENT AND USE OF THE CHANNEL, ENSURING THE CONFIDENTIALITY OF THE COMPLAINT.

  IN ADDITION, THE AUDIT COMMITTEE IS REGULARLY INFORMED OF THE WORK CARRIED OUT BY THE INTERNAL AUDIT, INCLUDING THAT RELATED TO ANY IRREGULAR ACTIONS WITHIN THE ORGANISATION.

- Regular training and refresher programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the FIICS, to cover at least accounting standards, audit, internal control and risk management.

THE ENTITY HAS A TRAINING PLAN WHICH ENSURES THAT THE PERSONNEL DIRECTLY INVOLVED IN THE DRAFTING AND PREPARATION OF THE FINANCIAL INFORMATION, AND IN ITS REVIEW, HAVE THE TRAINING AND PROFESSIONAL SKILLS NECESSARY TO CARRY OUT THEIR DUTIES. IN THIS RESPECT, THESE MEMBERS OF STAFF ARE PERMANENTLY INFORMED ABOUT THE REGULATORY REQUIREMENTS IN FORCE.

THE TRAINING PROGRAMMES AND ACTIVITIES ARE MANAGED BY THE TRAINING SECTION OF THE ENTITY, WHICH ALSO KEEPS AN UP-TO-DATE RECORD OF ALL THE COURSES CARRIED OUT AND THEIR CHARACTERISTICS. SOME OF THE ASPECTS COVERED IN THE FIELDS OF FIICS DURING 2015 ARE DESCRIBED BELOW: RISK MANAGEMENT AND ANALYSIS, RISK APPETITE, IT ASSESSMENT AND AUDIT, REGULATORY COMPLIANCE, FINANCE,...

TRAINING SESSIONS ARE IN-PERSON AND ON-LINE THROUGH INTERNAL AND EXTERNAL EDUCATORS.

F.2 Financial information risk assessment

Give details of at least:

F.2.1. The main characteristics of the risk identification process, including those of error or fraud, in terms of:

- Whether the process exists and is documented.

THE FIICS HAS BEEN DEVELOPED BY THE ENTITY MANAGEMENT IN ACCORDANCE WITH THE INTERNATIONAL STANDARDS ESTABLISHED BY THE “COMMITTEE OF SPONSORING ORGANIATIONS OF THE TREADWAY COMMISSION” (HEREINAFTER, “COSO”); WHICH ESTABLISHES FIVE COMPONENTS ON WHICH TO BASE THE EFFICIENCY OF THE INTERNAL CONTROL SYSTEMS:

• TO ESTABLISH A SUITABLE CONTROL ENVIRONMENT FOR MONITORING ALL THESE ACTIVITIES.

• TO EVALUATE ALL THE RISKS WHICH AN ENTITY COULD INCUR DURING THE PREPARATION OF ITS FINANCIAL INFORMATION.

• TO DESIGN THE CONTROLS REQUIRED TO MITIGATE THE MOST CRITICAL RISKS.

• TO ESTABLISH THE APPROPRIATE INFORMATION CIRCUITS IN ORDER TO DETECT AND COMMUNICATE THE WEAKNESSES OR INEFFICIENCIES OF THE SYSTEM.

• TO MONITOR THESE CONTROLS TO ENSURE THEIR EFFECTIVENESS AND THE VALIDITY OF THEIR EFFICIENCY OVER TIME.

THUS, THE PROCESS FOR IDENTIFYING RISKS WITH A POTENTIAL IMPACT ON THE FINANCIAL STATEMENTS IS SIGNIFICANT; FOCUSING ON IDENTIFYING THE CRITICAL MANAGEMENT PROCESSES RELATED TO THE GENERATION OF FINANCIAL INFORMATION AND THE AREAS OR HEADINGS OF THE FINANCIAL STATEMENTS WHERE THE MENTIONED RISKS ARE MATERIALISED. IN THE ANALYSIS PROCESS OF PROCESSES AND AREAS, BOTH QUANTITATIVE (BALANCE AND GRANULARITY) AND QUALITATIVE FACTORS (DEGREE OF AUTOMATION OF THE PROCESSES, OPERATION STANDARDISATION, LEVEL OF ACCOUNTING COMPLEXITY, CHANGES WITH REGARD TO THE PREVIOUS FINANCIAL YEAR, IDENTIFIED WEAKNESSES IN CONTROL, ETC.) ARE CONSIDERED.

THE FINANCIAL INFORMATION INTERNAL CONTROL RISKS EVALUATION AND IDENTIFICATION IS DYNAMIC, IT CONTINUOUSLY EVOLVES OVER TIME, REFLECTING THE REALITY OF THE BUSINESS OF THE GROUP, THE RISKS WHICH AFFECT IT AND THE CONTROLS WHICH MITIGATE IT, AT EACH MOMENT IN TIME. THE EVALUATION OF THE EFFECTIVENESS OF THE FCIIS CONTROLS IS PERFORMED BASED ON THE INDICATED RISKS IDENTIFICATION PROCESS, TAKING INTO ACCOUNT THE CHANGES IN THE ORGANISATION AND BUSINESS OF THE GROUP AND CONSIDERING THE LEVEL OF MATERIALITY, PROBABILITY OF OCCURRENCE OR POSSIBLE FINANCIAL IMPACT OF THE RISK WHICH COVER THE MENTIONED CONTROLS.

- Whether the process covers all objectives of the financial information (existence and occurrence; integrity; valuation; presentation; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.

THE PROCESS HAS BEEN DESIGNED TAKING INTO ACCOUNT ALL OBJECTIVES OF THE FINANCIAL INFORMATION CONSIDERED IN THE INTERNAL CONTROL DOCUMENT ON FINANCIAL INFORMATION IN THE LISTED ENTITIES ISSUED BY THE CNMV (EXISTENCE AND OCCURRENCE; INTEGRITY; VALUATION; PRESENTATION; BREAKDOWN AND COMPARABILITY; AND RIGHTS AND OBLIGATIONS).

AS INDICATED ABOVE, THE CRITERIA TO BE FOLLOWED FOR ALL TYPES OF IDENTIFIABLE RISKS AND WHICH ARE INCLUDED IN THE DESIGN OF THE FIICS ARE BOTH QUANTITATIVE AND QUALITATIVE. AS WELL AS CONSIDERING THE IDENTIFICATION OF RISKS OF ERROR AND FRAUD RELATED TO PUBLISHED FINANCIAL INFORMATION.

THE FORESEEN FREQUENCY OF THE IDENTIFICATION PROCESS OF THE RELEVANT MATERIAL AREAS AND PROCESSES IS AT LEAST ANNUALLY, USING THE MOST RECENT FINANCIAL INFORMATION. FURTHERMORE, THIS EVALUATION IS ALSO PERFORMED WHENEVER CIRCUMSTANCES ARISE WHICH HAVE NOT BEEN PREVIOUSLY IDENTIFIED AND WHICH BRING TO LIGHT POSSIBLE ERRORS IN THE FINANCIAL INFORMATION OR WHEN THERE ARE

SUBSTANTIAL CHANGES IN THE OPERATIONS WHICH COULD LEAD TO THE IDENTIFICATION OF NEW RISKS, INCLUDING SITUATIONS WHICH IMPLY CHANGES IN THE STRUCTURE OF THE GROUP, SUCH AS: MODIFICATIONS IN THE CONSOLIDATION PERIMETER OR IN THE BUSINESS LINES, OR OTHER RELEVANT EVENTS, AMONG OTHER ASPECTS.

- The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental or special purpose entities.

THE ENTITY HAS A PROCEDURE FOR IDENTIFYING AND UPDATING THE SCOPE OF CONSOLIDATION, WHICH IS THE RESPONSIBILITY OF THE INTERVENTION DEPT. EVERY QUARTER, THIS DEPT. 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.

- 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.

AS MENTIONED ABOVE, AND DUE TO THE CONTROL STANDARDS AND METHODOLOGY IMPLEMENTED, THE EFFECTS OF OTHER TYPES OF RISKS (MARKET, CREDIT, OPERATIONAL, TECHNOLOGICAL, FINANCIAL, LEGAL, REPUTATIONAL, OF ANY OTHER NATURE) ARE TAKEN INTO ACCOUNT INSOFAR AS THEY MAY AFFECT THE FINANCIAL STATEMENTS.

REGARDING OPERATIONAL RISK, CAJA LABORAL HAS A MODEL FOR MANAGING OPERATIONAL RISK, WHICH INCLUDES A RISK IDENTIFICATION PROCESS (MAP SHOWING THE RISKS OF INTERNAL AND EXTERNAL FRAUD, AND TECHNOLOGICAL, OPERATIVE, BUSINESS PRACTICES AND LOSS RISKS) AND THE CONTROLS THAT MITIGATE THEM, AS WELL AS A QUANTITATIVE ASSESSMENT OF THEM. THE MODEL IS DIRECTLY MONITORED BY THE OPERATIONAL RISK COMMITTEE AND CONTAINED IN A COMPUTER APPLICATION AND IN VARIOUS POLICY, PROCEDURE AND USER MANUALS. RESPONSIBILITY FOR MONITORING ASSESSMENT OF THE OPERATIONAL RISKS AND THE CONTROLS ALLOCATED WITH THEM FALLS ON THE INTERNAL AUDIT DEPARTMENT.

- Which governing body of the entity supervises the process.

THE EXECUTION OF THE PROCEDURE FOR IDENTIFYING RISK AND CONTROLS IS THE RESPONSIBILITY OF THE CONTROL AND PLANNING DEPT., DEPENDENT ON THE FINANCIAL AREA MANAGEMENT, WHEREAS ITS SUPERVISION IS DOWN TO THE AUDIT COMMITTEE, THROUGH THE INTERNAL AUDIT DEPARTMENT.

F.3 Control activities

State, highlighting the main characteristics, whether you have at least:

F.3.1. Procedures for the review and authorisation of financial information and the description of the FIICS, to be published in the securities markets, listing those responsible for them and the documentation describing the flow of activities and controls (including those related to fraud risk) of the different types of transactions that could materially affect the financial statements, including the book closing procedure and the specific review of the relevant opinions, estimates, appraisals and forecasts.

THE PROCEDURES FOR THE REVIEW AND AUTHORISATION OF FINANCIAL INFORMATION OF THE GROUP WHICH IS PUBLISHED IN THE MARKETS BEGINS WITH THE REVIEW BY THE FINANCIAL AREA MANAGEMENT. THE INDIVIDUAL AND CONSOLIDATED ANNUAL ACCOUNTS ARE REVIEWED BY THE INTERNAL AUDIT DEPARTMENT AS A STEP PRIOR TO THEIR FORMULATION BY THE GOVERNING BOARD. THE AUDIT COMMITTEE THEN READS THE INFORMATION AND DISCUSSES IT WITH THE MANAGERS FROM THE FINANCIAL AREA, INTERNAL AUDIT AND WITH THE EXTERNAL AUDITORS, BEFORE IT IS SENT TO THE GOVERNING BODY.

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 PROCEDURES INCLUDE THE ORGANISATION CHART AND THE FUNCTIONS INVOLVED IN THE PROCESS, THE SYSTEMS INVOLVED AND THE DESCRIPTION OF THE PROCESS. ADDITIONALLY, THE MATRIX OF RISK AND CONTROLS COVER THE FOLLOWING FIELDS, AMONG OTHERS:

- DESCRIPTION OF THE RISK.
- CONTROL ACTIVITIES.
- CONTROL CLASSIFICATION: KEY/STANDARD.
- CONTROL CATEGORY: PREVENTIVE/DETECTIVE.
- METHOD:MANUAL/MIXED/AUTOMATIC.
- SYSTEM WHICH SUPPORTS THE CONTROL.
- CONTROL MANAGER AND EXECUTOR.
- CONTROL FREQUENCY.
- CONTROL EVIDENCE.

BELOW ARE THE SIGNIFICANT PROCESSES (DISTINGUISHING BETWEEN TRANSVERSAL PROCESSES AND BUSINESS PROCESSES) ASSOCIATED WITH THE FINANCIAL AREAS OF THE ENTITY FOR WHICH THE AFOREMENTIONED DOCUMENTATION IS AVAILABLE:

TRANSVERSAL PROCESSES

- ACCOUNTING CLOSURE.
- CONSOLIDATION.
- LEGAL AND FISCAL MANAGEMENT
- GENERAL COMPUTER CONTROLS.
- JUDGEMENTS AND ESTIMATIONS

BUSINESS PROCESSES

- CREDIT INVESTMENT
  - GRANTING.
  - MONITORING AND RECOVERY.
- FINANCIAL INSTRUMENTS.
- REAL ESTATE ASSETS RECEIVED AS PAYMENT OF DEBT.

THE DESCRIPTIVE DOCUMENTATION DESCRIBED ABOVE INCLUDES:

- A DESCRIPTION OF THE AREAS AND DEPARTMENTS INVOLVED IN EACH OF THE IDENTIFIED PROCESSES.
- THE DESCRIPTION FOCUSED ON THE PREPARATION OF FINANCIAL INFORMATION OF THE PROCEDURES, CONTROLS AND VERIFICATIONS OF THE ACTIVITIES RELATED TO THE PROCESS FROM THE BEGINNING.
- THE IDENTIFICATION OF THE COMPUTER SYSTEMS INVOLVED IN EACH PROCESS.
- THE IDENTIFICATION OF RELEVANT RISKS WITH A MATERIAL IMPACT ON THE ENTITY'S FINANCIAL STATEMENTS.
- THE IDENTIFICATION OF THE CONTROLS AND THEIR DESCRIPTION, AS WELL AS THEIR ASSOCIATION WITH THE PREVIOUSLY IDENTIFIED RISKS.

THE CAJA LABORAL ACCOUNTING CLOSURE PROCEDURE IS AUTOMATED AND THE ACCOUNTING TAKES PLACE AUTOMATICALLY THROUGH THE ENTITY'S VARIOUS APPLICATIONS. AFTER THIS INITIAL PROCESS HAS TAKEN PLACE, THE INSPECTION DEPT. REVIEWS THE INFORMATION, COMPARING IT TO BOTH THE DATA FROM THE PREVIOUS MONTH AND THE FORECAST FIGURES, IN ORDER TO VALIDATE THE CLOSURE OF THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT FOR THE MONTH.

ACCOUNTING CLOSURE OF THE SUBSIDIARIES IS CARRIED OUT BY THEIR CORRESPONDING ENTITY, EXCEPT IN THE CASE OF THE REAL ESTATE PROMOTION COMPANIES, WHICH ARE SUB-CONTRACTED TO A THIRD PARTY. ONCE THE INFORMATION HAS BEEN RECEIVED FROM THE SUBSIDIARIES, A REVIEW IS PERFORMED BY THE CAJA LABORAL INSPECTION DEPARTMENT IN ORDER TO CARRY OUT THE CONSOLIDATION PROCESS.

AS MENTIONED IN THE ANNUAL ACCOUNTS, ESTIMATIONS HAVE BEEN USED, AS APPROPRIATE, FOR THE VALUATION OF CERTAIN ASSETS, LIABILITIES, INCOME, EXPENDITURE AND COMMITMENTS PERFORMED BY THE SENIOR MANAGEMENT OF THE PARENT ENTITY AND OF THE INVESTEE ENTITIES AND RATIFIED BY THE ADMINISTRATORS. IN THESE ANNUAL ACCOUNTS THE ENTITY ANNOUNCES THE MOST RELEVANT AREAS IN WHICH THERE ARE OPINION OR ESTIMATE PARAMETERS, AND THE KEY ASSUMPTIONS USED BY THE GROUP WITH RESPECT TO THEM. IN THIS RESPECT, THE MAIN ESTIMATIONS MADE MAKE REFERENCE TO:

- THE LOSSES DUE TO DETERIORATION OF CERTAIN ASSETS.
- THE USEFUL LIFE APPLIED TO THE ELEMENTS OF THE MATERIAL ASSET AND THE INTANGIBLE ASSET.
- THE VALUATION OF GOODWILL.
- THE FAIR VALUE OF CERTAIN UNQUOTED ASSETS.
- THE EXPECTED COST AND EVOLUTION OF CONTINGENT LIABILITIES AND PROVISIONS.
- HYPOTHESES USED FOR CALCULATING INSURANCE LIABILITIES.
- THE ACTUARIAL HYPOTHESES USED FOR CALCULATING THE POST-EMPLOYMENT REMUNERATION LIABILITIES AND COMMITMENTS.
- THE RECOVERABILITY EVALUATION OF ACTIVE FISCAL CREDITS

IN ADDITION, CAJA LABORAL HAS, WITHIN THE FIICS, A GENERAL POLICY FOR GIVING JUDGEMENTS AND ESTIMATIONS, CONTEMPLATING ALL THE ASPECTS TO BE CONSIDERED AND THE RESPONSIBILITIES IN ITS PREPARATIONS AND REVIEW.

F.3.2. Policies and procedures for internal control regarding 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 SUPPORT IT AS STRATEGIC ASSETS FOR THE BUSINESS AND IT IS THEREFORE DETERMINED TO ACHIEVE 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 A SECURITY POLICY, WHICH WAS APPROVED BY THE IT SECURITY COMMITTEE AND WHICH 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 AIM IS TO PRESERVE CONFIDENTIALITY, INTEGRITY, AVAILABILITY, AUTHENTICATION AND TRACEABILITY OF THE INFORMATION.

THE ENTITY HAS A GENERAL IT CONTROLS PROCESS (SECTION 3.1 ABOVE) WITH ITS CORRESPONDING PROCEDURE AND MATRIX OF RISKS AND CONTROLS, WHICH GIVES DETAILS ON THE RISKS AND CONTROLS RELATED TO ACCESS SECURITY, CHANGE CONTROL, THEIR OPERATION, OPERATIONAL CONTINUITY AND SEGREGATION OF FUNCTIONS.

INFORMATION MANAGEMENT IS SUPPORTED BY SUITABLE REGULATIONS AND PROCEDURES TO ACHIEVE AN ADEQUATE LEVEL OF SECURITY. THE SECURITY POLICY CONSTITUTES THE HIGHEST REGULATORY LEVEL IN RELATION TO SECURITY OF INFORMATION, WHICH MUST BE OBEYED BY ALL CAJA LABORAL STAFF. ITS CONTENT EXPRESSLY DEFINES THE FOLLOWING ASPECTS, AMONG OTHERS:

- ASSET MANAGEMENT.
- PHYSICAL AND ENVIRONMENTAL SECURITY.
- MANAGEMENT OF COMMUNICATIONS AND OPERATIONS (SECURITY COPIES).
- ACCESS CONTROL.
- ACQUISITION, DEVELOPMENT AND MAINTENANCE OF THE INFORMATION SYSTEMS.
- MANAGEMENT OF THE CONTINUITY OF THE ENTITY.

IN ADDITION, IT 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 FOR THE INFORMATION AND FOR THE PROCESSING SYSTEMS.

INSTRUCTION IMA 54.01-01 OF THE SGMA DEFINES THE SECURITY MEASURES WHICH ARE ESTABLISHED TO SAFEGUARD THE INFORMATION WITHIN BOTH THE FUJITSU ENVIRONMENT AND THE DIFFERENT SERVERS OF THE SO-CALLED "OPEN ENVIRONMENT" (SQL, TD, SAP, MEDTRA, ETC.).

IN ADDITION, THE ENTITY HAS AN IT RISKS AND PROCESSES AUDIT SECTION, THE MAIN TASK OF WHICH IS TO REVIEW THE EFFECTIVENESS OF THE CONTROLS REGARDING INFORMATION, VERIFYING THAT THERE ARE SUITABLE LEVELS OF INTEGRITY, CONFIDENTIALITY, AVAILABILITY AND REGULATORY COMPLIANCE. IN JANUARY 2015, A SECURITY AUDIT (HACKING ETHICS GEARED TOWARDS WEB AND ELECTRONIC BANKING) WAS PERFORMED BY AN EXTERNAL EXPERT. HAVING CORRECTED THE DETECTED VULNERABILITIES THROUGHOUT THE YEAR.

APPENDIX 12 OF THE SECURITY DOCUMENT "BACK-UP COPIES AND RECOVERY" DEFINES THE ACTIVITIES OF CAJA LABORAL WITH REGARDS TO BACK-UP AND RECOVERY PROCEDURES FOR DATA STORED IN ITS SYSTEMS.

THE CONTINGENCY TEST WAS CARRIED OUT IN JUNE 2015, ALTERNATING THE OPERATION OF THE "MAINFRAMES", AND THE LEVEL OF THE "MAINFRAMES" WAS RAISED. THE CHANGE OF POWER BETWEEN THEM HAS BEEN ENABLED IN THE PROCEDURE.

IN ADDITION, IN THE FINANCIAL YEAR 2015 AN EXTERNAL SERVICE HAS BEEN CONTRACTED IN ORDER TO PERFORM A COMPREHENSIVE SECURITY ANALYSIS AND TO DETECT AREAS FOR IMPROVEMENT UNDER SURVEILLANCE, GOVERNANCE, PROTECTION AND RESILIENCE.

F.3.3. Internal control policies and procedures intended for supervising the management of activities sub-contracted to third parties, as well as aspects of assessment, calculation or valuation assigned to independent experts, which could materially affect the financial statements.

THE ENTITY 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 HAS NOT EXTERNALISED PROCESSES TO DATE WHICH HAVE ANY RELEVANT IMPACT ON THE FINANCIAL INFORMATION. THE ENTITY REPEATEDLY USES REPORTS FROM INDEPENDENT EXPERTS REGARDING ASSESSMENTS OF OPERATIONS THAT COULD POTENTIALLY MATERIALLY AFFECT THE FINANCIAL STATEMENTS.

FOR 2015, THE MAIN ACTIVITY ENTRUSTED TO THIRD PARTIES RELATED TO ASSESSMENTS AND CALCULATIONS FROM INDEPENDENT EXPERTS HAVE CONCERNED VALUATIONS OF PROPERTIES OF OWN USE, REAL ESTATE INVESTMENTS, REPOSSESSED PROPERTIES AND OF PROPERTIES THAT ACT AS A GUARANTEE IN THE ENTITY'S CREDIT PORTFOLIO OPERATIONS, AS INDICATED IN THE BANCO DE ESPAÑA CIRCULAR 4/2004.

THE ENTITY HAS CONTROLS IN PLACE TO MITIGATE THE RISKS ASSOCIATED WITH THE ACTIVITY PERFORMED BY THE VALUATION COMPANIES, THESE BEING EXECUTED BY THE DEPARTMENTS AND BODIES RESPONSIBLE FOR THE OPERATION AND INTENDED FOR 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. SIMILARLY, IT RECEIVES SUPPORT FROM THE INTERNAL AUDIT DEPT. FOR CHECKING THE EFFECTIVENESS OF THE ESTABLISHED PROCEDURES.

F.4 Information and communication

State, highlighting the main characteristics, whether you have at least:

F.4.1. A specific role responsible for defining and reviewing accounting policies (accounting policies area or department) and resolving any queries or conflicts derived from their interpretation, maintaining smooth communication with those responsible for the organisation's operations, as well as an accounting policy manual that is updated and sent to all units through which the company operates.

THE INTERVENTION 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 OPERATIONS SPECIFIC TO THE ENTITY, SUCH AS, FOR EXAMPLE, CONSOLIDATION PACKAGES FOR THE SUBSIDIARY COMPANIES. THESE DOCUMENTS NOT ONLY REFER EXPLICITLY TO THE STANDARDS THAT APPLY TO EACH TYPE OF TRANSACTION, BUT THEY ALSO DEVELOP AND EXPLAIN THEIR INTERPRETATION SO THAT THEY CAN BE ADAPTED PRECISELY TO EACH TYPE OF TRANSACTION.

THESE DOCUMENTS ARE REGULARLY UPDATED AND THEREFORE ANY SIGNIFICANT AMENDMENTS OR UPDATES ARE NOTIFIED TO THE COMPANIES TO WHICH THEY APPLY.

THE CONSOLIDATION PACKAGES ARE PREPARED BY EACH AFFILIATED COMPANY OF THE FINANCIAL GROUP AND IT IS THE INTERVENTION DEPT. WHO SUPERVISES THE COMPLIANCE BY THESE INVESTEE COMPANIES WITH THE ACCOUNTING POLICIES ESTABLISHED BY THE GROUP. THIS DEPT. ANALYSES AND REVIEWS THE INFORMATION FROM THE SUBSIDIARIES AND MAKES ANY CORRECTIONS THAT MAY BE NECESSARY.

IF THERE ARE 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 DEPT. IS RESPONSIBLE FOR SENDING ANY AMENDMENTS OR UPDATES TO BOTH THE ENTITY'S BUSINESS UNITS AND THE SUBSIDIARIES.

THE FRAMEWORK OF ACCOUNTING FINANCIAL INFORMATION APPLIED BY THE ENTITY AND ITS GROUP INCLUDES: (I) THE INTERNATIONAL REGULATIONS ON FINANCIAL INFORMATION, ADOPTED BY THE EUROPEAN UNION AND (II) CIRCULAR 4/2004, DATED 22 DECEMBER, OF THE BANCO DE ESPAÑA.

F.4.2. Mechanisms for capturing and preparing the financial information with standard formats for application and use by all units of the institution or group, which support the main financial statements and the notes, as well as the information detailed about the FIICS.

THERE ARE CONTROL MEASURES IN PLACE TO ENSURE THAT THE BACK-UP DATA FOR THE FINANCIAL INFORMATION IS COLLECTED IN FULL, AND IN AN ACCURATE AND TIMELY MANNER, BEING ALSO NOTIFIED IN A TIMELY MANNER. THE PROCESS OF CONSOLIDATION AND PREPARATION OF THE FINANCIAL INFORMATION IS CENTRALISED AND CARRIED OUT BY THE ENTITY.

IN THIS PROCESS THE CONSOLIDATION PACKAGES OF THE FINANCIAL STATEMENTS REPORTED BY THE AFFILIATED COMPANIES ARE USED AS INPUTS, FOLLOWING THE GUIDELINES AND THE FORMATS ESTABLISHED, AS WELL AS THE REST OF THE REQUIRED FINANCIAL INFORMATION, BOTH IN THE ACCOUNTING HARMONISATION PROCESS AND FOR COVERING THE ESTABLISHED INFORMATION NEEDS. THE INTERVENTION DEPARTMENT IS RESPONSIBLE FOR REVIEWING THE FINANCIAL INFORMATION REPORTED BY THE SUBSIDIARY COMPANIES.

THE INTERVENTION DEPARTMENT PERFORMS A SERIES OF CONTROLS TO ENSURE THE RELIABILITY AND CORRECT PROCESSING OF THE FINANCIAL INFORMATION RECEIVED FROM THE SUBSIDIARIES AND THE BUSINESS UNITS, AMONG WHICH ARE CHECKS ON THE CORRECT IMPLEMENTATION OF THE VARIOUS CONSOLIDATION ENTRIES, VARIATIONS IN THE RESULTS OBTAINED ON THE BUDGET AND THE CHECKS SPECIFIC TO BANCO DE ESPAÑA, WHERE THE VARIOUS BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ENTRIES ARE INTERLINKED.

F.5 Supervising the system's operation

Give details, highlighting the main characteristics, of at least:

F.5.1. Activities for supervising the FIICS carried out by the Audit Committee, and whether the institution has an internal audit system whose responsibilities include supporting the committee in its task of supervising the internal control system, including the FIICS. Furthermore, information shall be provided about the scope of the evaluation of the FIICS made during the financial year and the procedure used by the person responsible for carrying out the evaluation to report their findings, whether the institution has an action plan containing details of any corrective measures and whether their impact on the financial information has been considered.

AMONG THE COMPETENCES ASSIGNED TO THE AUDIT COMMITTEE, AS WELL AS THAT OF SUPERVISING THE INTERNAL AUDIT SERVICES, ARE THOSE REGARDING THE SUPERVISION OF THE PROCESS OF DEVELOPMENT AND PRESENTATION OF FINANCIAL INFORMATION AND THE INTERNAL CONTROL SYSTEMS OF THE COMPANY, AND DELEGATES THE DEVELOPMENT OF THESE ACTIVITIES TO THE INTERNAL AUDIT DEPARTMENT.

TO EXERCISE ITS FUNCTIONS, THE INTERNAL AUDIT DEPARTMENT IS DIVIDED INTO FOUR SECTIONS: FINANCIAL UNITS AUDIT, CUSTOMER MANAGEMENT UNITS AUDIT, REMOTE AUDIT AND INFORMATION TECHNOLOGY AUDIT, AND THEIR MAIN TASK IS TO ESTABLISH THE INTERNAL CONTROL MEASURES NECESSARY TO GUARANTEE THE RELIABILITY OF THE FINANCIAL INFORMATION, OPERATIONAL EFFICIENCY (OF BOTH PROCEDURES AND MANAGEMENT), COMPLIANCE WITH THE INTERNAL AND EXTERNAL REGULATIONS THAT APPLY, AND PROTECTION OF THE ENTITY'S ASSETS.

FURTHERMORE, THE ENTITY'S CODE OF ETHICS AND PROFESSIONAL CONDUCT ESTABLISHES THAT THE GOVERNING BODY AND THE INTERNAL AUDIT DEPT. 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, INTERNAL AUDIT CARRIES OUT SCHEDULED REVIEWS OF THE SYSTEMS IMPLEMENTED FOR CONTROLLING RISKS, INTERNAL OPERATING PROCEDURES AND COMPLIANCE WITH THE INTERNAL AND EXTERNAL REGULATIONS THAT APPLY AT ANY TIME.

THE SCOPE OF THE EVALUATION PERFORMED DURING THE FINANCIAL YEAR 2015 HAS INCLUDED THE FOLLOWING REVIEWS:

- MONITORING OF THE ACTION PLANS IDENTIFIED IN 2014 IN THE FIICS IMPLEMENTATION AND DESIGN PROCESS

- REVIEW OF THE TRANSVERSAL PROCESSES OF ACCOUNTING CLOSURE AND CONSOLIDATION IN THE CONTEXT OF THE REVIEW OF THE INDIVIDUAL AND CONSOLIDATED ACCOUNTS. IN ADDITION, THE JUDGEMENTS AND ESTIMATIONS USED FOR CALCULATING RELEVANT CONTINGENT LIABILITIES AND PROVISIONS HAVE BEEN REVIEWED

- IN RELATION TO THE NEGOTIATION PROCESS OF REAL ESTATE ASSETS RECEIVED AS PAYMENT OF DEBTS, THE ACCOUNTING PROCESS APPLIED IN THE GROUP REAL ESTATE COMPANIES HAS BEEN VERIFIED, ANALYSING ITS INTER-RELATIONSHIP WITH THE CONSOLIDATION PROCESS.

THE INTERNAL AUDIT DEPT. INCLUDES IN ITS ANNUAL ACTION PLAN, REVIEWS OF THE PROCESSES CONSIDERED TO BE RELEVANT, WITH THE AIM OF REVIEWING THE ENTIRETY OF THE SAME OVER A THREE YEAR PERIOD, WITH THE EXCEPTION OF CERTAIN AREAS OR PROCESSES CONSIDERED TO BE ESPECIALLY RELEVANT, INCLUDING THE ACCOUNTING CLOSURE, THE REVIEW OF JUDGEMENTS AND ESTIMATIONS AND THE GENERAL CONTROLS ON INFORMATION SYSTEMS, FOR WHICH THE EVALUATION IS PERFORMED ANNUALLY (FOR THE GENERAL IT CONTROLS, THE FIRST REVIEW WILL BE PERFORMED IN 2016) .

F.5.2. Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in the Technical Auditing Standards), the internal audit team and other experts can report to senior management and to the Audit Committee or the entity's directors any significant control weaknesses detected during the annual account review processes or any others assigned to them. Furthermore, whether there is an action plan to correct or mitigate any weaknesses observed.

THE AUDIT COMMITTEE MEETS THE EXTERNAL AUDITOR TWICE DURING THE FINANCIAL YEAR:

- THE FIRST MEETING IS HELD AT THE END OF THE PRELIMINARY WORK FOR THE INTERIM VISIT THAT FORMS PART OF THE ANNUAL AUDIT, WHERE THE EXTERNAL AUDITOR PRESENTS THE PRELIMINARY 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.

MOREOVER, THE ACCOUNT AUDITOR HAS DIRECT ACCESS TO SENIOR MANAGEMENT AND TO THE INTERNAL AUDIT DIVISION, HOLDING REGULAR MEETINGS WITH THEM BOTH TO OBTAIN THE INFORMATION NECESSARY FOR THIS WORK AND ALSO TO DISCUSS ANY WEAKNESSES DETECTED.

THE 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.

LASTLY, 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 REGARDS TO THE RESULT OF THE TASKS CARRIED OUT BY THE INTERNAL AUDIT, THE ISSUED REPORTS ARE PRESENTED BY THE DEPT. DIRECTOR TO THE MANAGERS OF THE AUDITED CENTRE AND TO THE GENERAL MANAGEMENT, AND THE DEGREE OF IMPLEMENTATION OF THE RECOMMENDATIONS PROPOSED IN THE REPORTS IS SUBSEQUENTLY MONITORED.

FURTHERMORE, THE AUDIT COMMITTEE MEETS AT LEAST QUARTERLY AT THE REQUEST OF THE DIRECTOR OF THE INTERNAL AUDIT DEPT., IN ORDER TO RECEIVE INFORMATION ON THE MAIN TASKS IT CARRIES OUT, THEREBY COMPLYING WITH ONE OF THE COMPETENCES ASSIGNED TO THE COMMITTEE.

F.6 Other relevant information

F.7 External auditor's report

Give details of:

F.7.1. Whether the FIICS information sent to the markets has been subject to review by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for this.

WITHIN THE FRAMEWORK OF THE FIICS IMPLEMENTATION PLAN, CERTAIN ACTION PLANS ARE CURRENTLY IN THE PROCESS OF EXECUTION, AND IT IS EXPECTED TO BE COMPLETED IN 2016. FOR THIS REASON, THE FIICS HAS NOT BEEN SUBMITTED FOR REVIEW BY THE EXTERNAL AUDITOR.

THE ENTITY WILL ASSESS WHETHER OR NOT IT IS APPROPRIATE TO SUBMIT THE FIICS INFORMATION SENT TO THE MARKETS FOR REVIEW BY THE EXTERNAL AUDITOR IN SUBSEQUENT YEARS.

G OTHER INFORMATION OF INTEREST

If there is any relevant aspect concerning corporate governance in the entity or in the group companies which has not been gathered in the remaining sections of this Report, but that must be included in order to include more complete and reasoned information on the structure and practices of governance in the entity or its group, describe them briefly.

Any other information, clarification or nuance relating to the previous sections of the report can also be included in this section as long as it is relevant and does not repeat what has already been stated.

Specifically, indicate whether the entity is subject to any legislation other than Spanish law on matters of corporate governance and, if so, include any information that you are obliged to provide that is not included in this report.

The entity may also indicate whether it has voluntarily adhered to other codes of ethics or good practices, either international, sectoral or of another scope. When applicable, the entity will identify the code in question and the date of adhesion.

1.- THIS INFORMATION COMPLEMENTS SECTION A. PROPERTY STRUCTURE:

THE MAJORITY OF THE COOPERATIVES AND THEIR TRADING COMPANIES WHICH ARE PARTNERS OF CAJA LABORAL, IN TURN, FORM PART OF MONDRAGÓN CORPORACIÓN COOPERATIVA. THIS CORPORATION, WHICH CAJA LABORAL IS PART OF, IS A GROUP OF FREELY ASSOCIATED COOPERATIVES WHICH SHARE A SET OF COOPERATIVE VALUES AND WHICH SEEK TO ACHIEVE COMPETITIVE ADVANTAGES FROM THEIR JOINT COOPERATIVE ACTION.

CAJA LABORAL CONTRIBUTES TO MONDRAGON INVERSIONES S.COOP. AND TO FUNDACIÓN MONDRAGON (ENTITIES BELONGING TO OR MADE UP BY THE ASSOCIATED COOPERATIVES IN THE MONDRAGON CORPORATION) AN ANNUAL SUM EQUIVALENT TO 20% OF THE EXCESSES BEFORE TAXES OF THE PREVIOUS FINANCIAL YEAR, REDUCED BY THE CAPITAL INTERESTS AND GRANTS CORRESPONDING TO THE CONTRIBUTION TO THE CENTRAL INTERCOOPERATIVE FUND (FONDO CENTRAL INTERCOOPERATIVO - FCI) BY THE MONDRAGON CORPORATION. THESE CONTRIBUTIONS ARE MADE IN ACCORDANCE WITH THE CRITERIA BELOW:

A) IN CONCEPT OF GRANTS, AN ANNUAL CONTRIBUTION IS MADE EQUIVALENT TO 14% OF ITS NET EXCESS, WHICH IS TAKEN FROM THE INTERCOOPERATIVE SOCIAL FUND (ISF).

B) THE REMAINING AMOUNT, UNTIL REACHING 20% OF THE CALCULATION BASE OF THE CONTRIBUTION TO THE FCI ,TAKES THE FORM OF LOANS OR CONTRIBUTION TO THE CAPITAL OF ENTITIES INTEGRATED IN THE CORPORATION. IN THE EVENT OF BEING SUBJECT TO PROVISION DUE TO INSOLVENCY BY CAJA LABORAL, THE AMOUNT OF THIS PROVISION IS REDUCED BY THE GRANT TO BE AWARDED IN THE FINANCIAL YEAR IN WHICH THE NEED FOR SAID PROVISION ARISES.

2.- THIS INFORMATION COMPLEMENTS SECTION C.1.5. ON THE REMUNERATION OF THE BOARD MEMBERS:

THE WORKING PARTNER BOARD MEMBERS DO NOT RECEIVE REMUNERATIONS FOR BELONGING TO THE GOVERNING BOARDS, NOTWITHSTANDING THAT RECEIVED FOR THE WORK THEY PERFORM IN THE ENTITY AS WORKERS. THE REST OF THE MEMBERS OF THE GOVERNING BOARD DO NOT RECEIVE REMUNERATION FOR BELONGING TO THE BOARD EITHER.

CAJA LABORAL POPULAR COMPENSATES THE DEDICATION OF THE CHAIRPERSON AND, THROUGH THE ESTABLISHED PROCEDURES, PAYS THE CORRESPONDING REMUNERATION BY APPLYING THE REMUNERATION CRITERIA ESTABLISHED BY CAJA LABORAL POPULAR COOP. DE CRÉDITO WITHIN THE FRAMEWORK OF THE REGULATIONS ESTABLISHED FOR CREDIT INSTITUTIONS.

This annual corporate governance report has been approved by the entity's board or administrative body at its session held on 29-02-16.

Indicate the board members or members of the administrative body that have voted against or have abstained from voting to approve this Report.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND DIRECTORS' REPORT FOR 2015

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 2015.

As a result, the members of the Governing Council of Caja Laboral Popular Coop. de Crédito (Parent Entity) hereby prepare the Consolidated Directors' Report and consolidated financial statements on 29 february 2016 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 2015. 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.

D. Txomin García Hernández (Chairman)	D. Roberto Ruiz de Infante Aguirre (Vice-Chairman)	D. Iñaki Josu Goñi Gabilondo (Secretary)
Dña. Elena Zarraga Bilbao (Member)	Dña. Ainhoa Gallastegui Martínez (Member)	D. Javier Oleaga Mendiarach (Member)
D. José María Balzategui Juldain (Member)	Dña. María Carmen Inurria Landeras (Member)	D. Rafael Idígoras Alberdi (Member)
D. José Luis García García (Member)	D. José Javier Saenz de Buruaga Gabilondo (Member)	D. Luis Mª Ugarte Azpiri (Member)
D. Adolfo Plaza Izaguirre (Member)	D. Jesús Ignacio Peña Gómez (Member)	