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

Audit report,
Consolidated annual accounts at 31 December 2016
and consolidated Directors' Report for 2016

(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, 2016, 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.

PricewaterhouseCoopers Auditores, S.L., Paseo de Colón, 2, 1º, 20002 San Sebastián, España
T: +34 943 323 900 F: +34 943 288 177, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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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, 2016, 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 2016 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 2016.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 González
Audit Partner
09 March 2017

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

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016
(Expressed in €' 000)

ASSETS	Note	2016	2015 (*)
Cash, cash balances at central Banks and other demand deposits (**)	**22**	**453,030**	**209,855**
Financial assets held for trading	**23**	**183,689**	**258,966**
Derivatives		3,668	3,047
Equity instruments		620	776
Debt securities		179,401	255,143
Memorandum-item: Loaned or pledged as security with sale or pledging rights		*43,143*	*82,449*
Financial assets designated at fair value through profit or loss	**24**	**403**	**558**
Equity instruments		403	558
Debt securities		-	-
Memorandum-item: Loaned or pledged as security with sale or pledging rights		-	-
Available-for-sale financial assets	**25**	**5,048,900**	**4,616,341**
Equity instruments		318,286	387,420
Debt securities		4,730,614	4,228,921
Memorandum-item: Loaned or pledged as security with sale or pledging rights		*1,207,304*	*1,250,056*
Loans and receivables	**26**	**13,943,448**	**13,949,842**
Debt securities		49,281	51,535
Loans and advances		13,894,167	13,898,307
Credit institutions		392,590	169,810
Customers		13,501,577	13,728,497
Memorandum-item: Loaned or pledged as security with sale or pledging rights		-	-
Held-to-maturity investments	**27**	**439,533**	**1,142,714**
Memorandum-item: Loaned or pledged as security with sale or pledging rights		-	*139,322*
Derivatives – Hedge accounting	**28**	**186,213**	**232,753**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in joint ventures and associates	**29**	**3,042**	**3,091**
Jointly controlled entities		-	-
Associates		3,042	3,091
Assets under insurance or reinsurance contracts	**30**	**26,572**	**25,198**
Tangible assets	**31**	**354,547**	**379,671**
Property, plant and equipments		298,658	317,842
For own use		286,927	306,625
Leased out under operating leases		10,971	10,426
Associated with Community Projects		760	791
Investment property		55,889	61,829
Of which: leased out under operating leases		*43,003*	*47,832*
Memorandum-item: acquired through finance leases		-	-
Intangible assets	**32**	**33,568**	**33,491**
Goodwill		33,425	33,425
Other intangible assets		143	66
Tax assets	**33**	**299,290**	**316,095**
Current tax assets		13,330	14,573
Deferred tax assets		285,960	301,522
Other assets	**34**	**62,944**	**61,635**
Insurance contracts linked to pensions		-	-
Inventories		19,476	3,441
Rest of other assets		43,468	58,194
Non-current assets and disposal groups classified as held for sale	**35**	**278,987**	**354,765**
TOTAL ASSETS		**21,314,166**	**21,584,975**

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain Circular's 5/2014 (Note 2.3).
(**) See details in the consolidated cash flow statements

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016
(Expressed in €' 000)

LIABILITIES	Nota	2016	2015 (*)
Financial liabilities held for trading	23	**2,297**	**3,430**
Derivatives		2,297	3,430
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Memorandum-item: subordinated liabilities		-	-
Financial liabilities measured at amortized cost	36	**18,487,909**	**18,872,284**
Deposits		18,097,181	18,545,619
Central banks		-	-
Credit institutions		202,981	262,856
Customers		17,894,200	18,282,763
Debt securities issued		174,810	166,333
Other financial liabilities		215,918	160,332
Memorandum-item: subordinated liabilities		-	-
Derivatives – Hedge accounting	28	**178,447**	**114,798**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Liabilities under insurance or reinsurance contracts	37	**558,752**	**533,304**
Provisions	38	**208,509**	**202,656**
Pensions and other post-employment defined benefit obligations		35,830	25,879
Other long-term employee benefits		-	-
Pending legal issues and tax litigation		-	-
Commitments and guarantees given		25,411	31,187
Other provisions		147,268	145,590
Tax liabilities	33	**121,363**	**130,491**
Current tax liabilities		3,868	5,228
Deferred tax liabilities		117,495	125,263
Share capital repayable on demand		**-**	**-**
Other liabilities	34	**72,502**	**89,929**
Of which: community projects and social funds		*12,030*	*11,765*
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**19,629,779**	**19,946,892**
EQUITY	**Nota**	**2016**	**2015 (*)**
Own Funds	39	**1,552,862**	**1,502,793**
Capital		712,957	708,403
Paid up capital		712,957	708,403
Memorandum-item: capital not called up		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		766,469	722,703
Reserves or accumulated losses of investments in joint ventures and associates		93	(114)
Other		766,376	722,817
(-) Treasury shares		(1,393)	(1,359)
Profit/(loss) attributable to owners of the parent company		103,473	102,787
(-) Interim dividends		(28,644)	(29,741)
Accumulated other comprehensive income	40	**131,525**	**135,290**
Items that may be reclassified to profit or loss		131,525	135,290
Hedging derivatives. Cash flows hedges (effective portion)		-	-
Available-for-sale financial assets		131,525	135,290
Debt securities		89,474	105,043
Equity instruments		42,051	30,247
Minority interests (non-controlling interests)		**-**	**-**
Accumulated other comprehensive income		-	-
Other items		-	-
TOTAL EQUITY		**1,684,387**	**1,638,083**
TOTAL EQUITY AND TOTAL LIABILITIES		**21,314,166**	**21,584,975**
Memorandum-item			
Guarantees given	43	**259,742**	**257,555**
Contingent commitments given	44	**1,045,076**	**985,090**

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Expressed in €' 000)

	Note	2016	2015 (*)
Interest income	45	299,543	389,609
(Interest expense)	46	28,415	80,712
(Expense on share capital repayable on demand)		-	-
NET INTEREST INCOME		271,128	308,897
Dividend income	47	7,993	8,536
Share of profit or loss of entities accounted for using the equity method	48	51	83
Fee and commission income	49	105,461	107,382
(Fee and commission expense)	50	11,764	10,825
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	51	12,016	12,541
Gains or (-) losses on financial assets and liabilities held for trading, net	52	1,836	739
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	53	(282)	2,886
Gains or (-) losses from hedge accounting, net	54	197	(803)
Exchange differences [gains or (-) losses], net	55	1,030	993
Other operating income	56	16,019	18,295
(Other operating expenses)	57	43,683	38,270
Of which: Mandatory appropriation to community projects and social funds		*7,833*	*7,538*
Income from assets under insurance and reinsurance contracts	58	177,357	186,600
(Expenses on liabilities under insurance and reinsurance contracts)	59	131,854	140,695
GROSS INCOME		405,505	456,359
(Administrative expenses)	60	238,229	241,424
(Staff expenses)		141,685	142,523
(Other administrative expenses)		96,544	98,901
(Depreciation)	61	19,719	19,996
(Provisions or (-) reversal of provisions)	62	24,824	32,256
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	63	(32,361)	39,509
(Available-for-sale financial assets)		2,833	37,129
(Loans and receivables)		(35,194)	2,380
(Investments held to maturity)		-	-
NET OPERATING INCOME		155,094	123,174
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	64	-	23
(Impairment or (-) reversal of impairment on non-financial assets)	65	2,680	20,000
(Tangible assets)		2,680	20,000
(Intangible assets)		-	-
(Other)		-	-
Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	66	(442)	(586)
Of which: investments in dependents, joint ventures and associates		-	-
Negative goodwill recognised in profit or loss		9	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	67	(35,039)	9,475
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		116,942	112,040
(Tax expense or (-) income related to profit from continuing operations)	41	13,469	9,253
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		103,473	102,787
Profit or (-) loss from discontinued operations		-	-
PROFIT/(LOSS) DURING THE YEAR		103,473	102,787
Attributable to minority interests (non-controlling interests)		-	-
Attributable to owners of the parent entity	39	103,473	102,787

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in €' 000)

	Nota	2016	2015 (*)
PROFIT/(LOSS) DURING THE YEAR		**103,473**	**102,787**
OTHER COMPREHENSIVE INCOME		**(3,765)**	**(31,021)**
Items that will not be reclassified to profit or loss		**-**	**-**
Actuarial gains or (-) losses on defined benefit pensions plans		-	-
Non-current assets and disposal groups held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Income tax related to items that will not be reclassified		-	-
Items that may be reclassified to profit or loss		**(3,765)**	**(31,021)**
Hedge of net investments in foreign operations (effective portion)		**-**	**-**
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		**-**	**-**
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges (effective portion)		**-**	**-**
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Available-for-sale financial assets		**(5,229)**	**(43,085)**
Valuation gains or (-) losses taken to equity		3,654	(67,673)
Transferred to profit or loss		(8,883)	24,588
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		**-**	**-**
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Share of other recognised income and expense of investments in joint ventures and associates		**-**	**-**
Income tax related to items that may be reclassified to profit or (-) loss	41	**1,464**	**12,064**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**99,708**	**71,766**
Attributable to minority interests (non-controlling interests)		-	-
Attributable to owners of the parent entity		99,708	71,766

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016
(Expressed in €' 000)

At 31 December 2016

Source of changes in equity	Capital	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent entity	(-) Interim dividends	Accumulated other comprehensive income	Minority interests	Total
Opening balance January 1, 2016	**708,403**	**722,703**	**(1,359)**	**102,787**	**(29,741)**	**135,290**	**-**	**1,638,083**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Opening balance January 1, 2016 (*)	**708,403**	**722,703**	**(1,359)**	**102,787**	**(29,741)**	**135,290**	**-**	**1,638,083**
Total comprehensive income for the year	**-**	**-**	**-**	**103,473**	**-**	**(3,765)**	**-**	**99,708**
Other changes in equity	**4,554**	**43,766**	**(34)**	**(102,787)**	**1,097**	**-**	**-**	**(53,404)**
Issuance of ordinary shares	24,653	15	-	-	-	-	-	24,668
Issuance of preferred shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(20,099)	-	-	-	-	-	-	(20,099)
Dividends (or remuneration paid to partners)	-	-	-	(18,845)	(28,644)	-	-	(47,489)
Purchase of treasury shares	-	-	(34)	-	-	-	-	(34)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	42,895	-	(72,636)	29,741	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	856	-	(11,306)	-	-	-	(10,450)
Of which: discretionary appropriation to community projects and social funds	*-*	*-*	*-*	*(11,306)*	*-*	*-*	*-*	*(11,306)*
Closing balance December 31, 2016	**712,957**	**766,469**	**(1,393)**	**103,473**	**(28,644)**	**131,525**	**-**	**1,684,387**

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016
(Expressed in €' 000)

At 31 December 2015 (*)

Source of changes in equity	Capital	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent entity	(-) Interim dividends	Accumulated other comprehensive income	Minority interests	Total
Opening balance January 1, 2015	**695,962**	**685,013**	**(1,322)**	**102,117**	**(31,058)**	**166,311**	**-**	**1,617,023**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Opening balance January 1, 2015	**695,962**	**685,013**	**(1,322)**	**102,117**	**(31,058)**	**166,311**	**-**	**1,617,023**
Total comprehensive income for the year	**-**	**-**	**-**	**102,787**	**-**	**(31,021)**	**-**	**71,766**
Other changes in equity	**12,441**	**37,690**	**(37)**	**(102,117)**	**1,317**	**-**	**-**	**(50,706)**
Issuance of ordinary shares	22,200	78	-	-	-	-	-	22,278
Issuance of preferred shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(9,759)	-	-	-	-	-	-	(9,759)
Dividends (or remuneration paid to partners)	-	-	-	(17,931)	(29,741)	-	-	(47,672)
Purchase of treasury shares	-	-	(37)	-	-	-	-	(37)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	42,369	-	(73,427)	31,058	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	(4,757)	-	(10,759)	-	-	-	(15,516)
Of which: discretionary appropriation to community projects and social funds	-	-	-	*(10,759)*	-	-	-	*(10,759)*
Closing balance December 31, 2015	**708,403**	**722,703**	**(1,359)**	**102,787**	**(29,741)**	**135,290**	**-**	**1,638,083**

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CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (Expressed in €' 000)

	Note	2016	2015 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**(473,305)**	**(520,790)**
Profit/(loss) during the year		**103,473**	**102,787**
Adjustments to obtain cash flows from operating activities		**83,629**	**134,388**
Depreciation	**61**	19,719	19,996
Other adjustments (a)		63,910	114,392
Net increase/decrease in operating assets		**(283,864)**	**2,457,574**
Financial assets held for trading		75,277	29,257
Financial assets designated at fair value through profit or loss		155	1,570
Available-for-sale financial assets		(440,622)	1,703,990
Loans and receivables		2,814	636,728
Other operating assets		78,512	86,029
Net increase/decrease in operating liabilities		**(373,781)**	**(3,212,498)**
Financial liabilities held for trading		(1,133)	(6,800)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortized cost		(384,375)	(3,119,931)
Other operating liabilities		11,727	(85,767)
Collections/Payments due to income tax		**(2,762)**	**(3,041)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**770,740**	**615,306**
Payments		**(36,729)**	**(20,854)**
Tangible assets	**31**	(20,596)	(19,538)
Intangible assets		(139)	-
Investments in joint ventures and associates		-	-
Subsidiaries and other business units	**29**	-	-
Non-current assets and liabilities classified as held for sale		-	-
Investments held to maturity	**27**	(15,994)	(1,316)
Other payments related to investment activities		-	-
Collections		**807,469**	**636,160**
Tangible assets (b)		11,131	5,581
Intangible assets		-	37
Investments in joint ventures and associates	**29**	103	276
Subsidiaries and other business units	**29**	-	-
Non-current assets and liabilities classified as held for sale		73,450	59,963
Investments held to maturity		722,785	570,303
Other payments related to investment activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(54,260)**	**(45,949)**
Payments		**(60,083)**	**(50,296)**
Dividends	**39**	(28,644)	(29,741)
Subordinated liabilities		-	-
Own equity instruments amortization	**39**	(20,099)	(9,759)
Own equity instruments acquisition	**39**	(34)	(37)
Other payments related to financing activities	**4**	(11,306)	(10,759)
Collections		**5,823**	**4,347**
Subordinated liabilities		-	-
Issuance of own equity instruments		5,823	4,347
Disposal of own equity instruments		-	-
Other collections related to financing activities		-	-
D) EFFECT OF EXCHANGE RATE CHANGES		**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**243,175**	**48,567**
F) CASH AND EQUIVALENTS AT THE BEGINNING OF THE YEAR		**209,855**	**161,288**
G) CASH AND EQUIVALENTS AT THE END OF THE YEAR		**453,030**	**209,855**
MEMORANDUM-ITEM			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Of which: held by group entities but not available by group			
Cash		78,876	88,463
Balances of cash equivalents in central banks		327,385	94,714
Other demand deposits		46,769	26,678
Other financial assets		-	-
Less: Bank overdrafts reimbursable on demand		-	-

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014 (Note 2.3).

(a) Include mainly, provisions for impairment and other provisions that have not result in a cash outflow.

(b) Include profit or loss generated on sale.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW 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

In the year 2012, after the adopted agreements by the Governing Councils of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito, the merger of both entities was effected, by 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 May 1989 on Credit Cooperatives, among other applicable legislation.

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

1.2 Bylaws

The Bylaws of the Group's Parent Entity state that its business operations will not be limited to any specific territory and that its corporate purpose is to service the financial needs of its owners and third parties by carrying out the activities typical of credit institutions. To this end, it may 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.

Contribution to Intercooperative Cooperation Institutions

The Parent Company, according to the agreements of the MONDRAGON Congress held on July 20, 2016, contribute by way of a grant to MONDRAGON Inversiones S.Coop. and to Fundación MONDRAGON an amount equivalent to 15% of its net surplus available from the previous year (after taxes and interest on capital) deducted from the Intercooperative Social Fund (FSI) generated in the distribution of results for the year.

Under the terms of the aforementioned Congress, the Parent Company's commitment to continue providing a credit line in favour of the entities comprising Corporación MONDRAGON Corporation has been finished. The undrawn limit of this line amounted to €82,055k (year-end 2015: €76,851k).

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 2016, the total assets and equity of the Parent Entity represented 96.94%, 96.06% and 95.87%, respectively, of total Group assets and equity (year-end 2015: 97.05%, 96.21% and 94.94%, 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 2016 and 2015, prepared in accordance with the accountings standards and measurement criteria that apply to its individual annual accounts.

(Expressed in €' 000)

a) Individual balance sheets at 31 December 2016.

ASSETS	2016	2015 (*)
Cash, cash balances at central Banks and other demand deposits	426,830	195,368
Financial assets held for trading	183,069	258,346
Available-for-sale financial assets	4,555,082	4,121,780
Loans and receivables	13,889,385	13,901,756
Held-to-maturity investments	358,736	1,057,032
Derivatives – Hedge accounting	186,213	232,753
Investments in dependents, joint ventures and associates	132,618	114,879
Tangible assets	329,549	352,761
Intangible assets	-	-
Tax assets	289,855	306,405
Other assets	47,429	60,069
Non-current assets and disposal groups classified as held for sale	263,311	346,824
Total assets	20,662,077	20,947,973

LIABILITIES AND EQUITY	2016	2015 (*)
Financial liabilities held for trading	2,297	3,430
Financial liabilities measured at amortized cost	18,493,001	18,871,060
Derivatives – Hedge accounting	178,447	114,798
Provisions	207,320	201,210
Tax liabilities	101,016	108,430
Share capital repayable on demand	-	-
Other liabilities	61,909	72,971
Total liabilities	19,043,990	19,371,899
Own Funds:	1,514,877	1,469,960
Capital	712,957	708,403
Other reserves	731,421	693,717
Surplus for the year	99,199	97,581
(Interim dividends)	(28,700)	(29,741)
Accumulated other comprehensive income	103,210	106,114
Total equity	1,618,087	1,576,074
Total liabilities and equity	20,662,077	20,947,973

MEMORANDUM-ITEM		
Guarantees given	280,061	273,561
Contingent commitments given	1,076,891	1,005,181

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014.

(Expressed in €' 000)

b) Individual income statements for the year ended 31 December 2016:

	2016	2015 (*)
Interest income	281,736	371,201
(Interest expense)	28,408	80,752
(Expense on share capital repayable on demand)	-	-
Net interest income	253,328	290,449
Dividend income	14,827	22,780
Fee and commission income	93,254	95,174
(Fee and commission expense)	5,473	4,870
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	10,604	13,186
Gains or (-) losses on financial assets and liabilities held for trading, net	1,801	739
Gains or (-) losses form hedge accounting, net	197	(803)
Exchange differences [gains or (-) losses], net	1,030	993
Other operating income	35,074	31,468
(Other operating expenses)	41,274	34,609
Gross income	363,368	414,507
(Administrative expenses)	191,020	196,194
(Depreciation)	18,950	19,192
(Provisions or (-) reversal of provisions)	25,459	32,256
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(25,975)	39,111
Net operating income	153,914	127,754
(Impairment or (-) reversal of impairment of investments in dependents, joint ventures and associates)	-	5,706
(Impairment or (-) reversal of impairment on non-financial assets)	2,736	20,000
Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	(442)	88
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(41,758)	588
Profit or (-) loss before tax from continuing operations	108,978	102,724
(Tax expenses or (-) income related to profit from continuing operations)	9,779	5,143
Profit or (-) loss after tax from continuing operations	99,199	97,581
Profit or (-) loss from discontinued operations	-	-
Profit/(loss) during the year	99,199	97,581

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014.

(Expressed in €' 000)

c) Individual statement of recognised income and expenses relating to the year ended 31 December 2016:

	2016	2015 (*)
PROFIT/(LOSS) DURING THE YEAR	**99,199**	**97,581**
OTHER COMPREHENSIVE INCOME	**(2,904)**	**(26,522)**
Items that may be reclassified to profit or loss	**(2,904)**	**(26,522)**
Available-for-sale financial assets	**(4,033)**	**(36,836)**
Valuation gains or (-) losses taken to equity	3,822	(60,415)
Transferred to profit or loss	(7,855)	23,579
Income tax related to items that may be reclassified to profit or (-) loss	**1,129**	**10,314**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**96,295**	**71,059**

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014.

d) Statements of total changes in equity for the year ended 31 December 2016:

Balance at 31 December 2016

	Own Funds	Accumulated other comprehensive income	Total equity
Opening balance January 1, 2016	**1,469,960**	**106,114**	**1,576,074**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance January 1, 2016	**1,469,960**	**106,114**	**1,576,074**
Total comprehensive income for the year	**99,199**	**(2,904)**	**96,295**
Other changes in equity			
- Issuance of ordinary shares	24,668	-	24,668
- Capital reduction	(20,099)	-	(20,099)
- Dividends (or remuneration paid to partners)	(47,545)	-	(47,545)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(11,306)	-	(11,306)
Total other changes in equity	**(54,282)**	**-**	**(54,282)**
Closing balance December 31, 2016	**1,514,877**	**103,210**	**1,618,087**

(Expressed in €' 000)

Balance at 31 December 2015

	Capital and Reserves	Measurement adjustments	Total equity
Opening balance January 1, 2015	**1,418,291**	**132,636**	**1,550,927**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance January 1, 2015	**1,418,291**	**132,636**	**1,550,927**
Total comprehensive income for the year	**97,581**	**(26,522)**	**71,059**
Other changes in equity			
- Issuance of ordinary shares	22,278	-	22,278
- Capital reduction	(9,759)	-	(9,759)
- Dividends (or remuneration paid to partners)	(47,672)	-	(47,672)
- Transfers between equity components	-	-	-
- Other increases or (-) decreases in equity	(10,759)	-	(10,759)
Total other changes in equity	**(45,912)**	**-**	**(45,912)**
Closing balance December 31, 2015 (*)	**1,469,960**	**106,114**	**1,576,074**

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014.

e) Individual cash flow statements for the year ended 31 December 2016:

	2016	2015 (*)
Cash flows from operating activities:	**(473,485)**	**(508,356)**
Profit/(loss) during the year	99,199	97,581
Adjustments made to obtain cash flows from operating activities	96,416	146,799
Net increase/ decrease in operating assets	(281,085)	2,475,493
Net increase/ decrease in operating liabilities	(385,253)	(3,225,188)
Collections/Payments due to income tax	(2,762)	(3,041)
Cash flows from investing activities	**759,229**	**594,521**
Payments	(19,764)	(25,101)
Collections	778,993	619,622
Cash flows from financing activities	**(54,282)**	**(45,912)**
Effect of exchange rate change	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**231,462**	**40,253**
Cash and cash equivalents at the beginning of the year	195,368	155,115
Cash and cash equivalents at the end of the year	426,830	195,368

(*) Presented for comparative purposes only. The information has been adapted to the new structure of financial statements of Bank of Spain`s Circular 5/2014.

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 2016 (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 2016 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 2016.

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 2016 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 2016 were authorised for issue by the Directors of the Group's Parent Entity at a Governing Council meeting held on 28 February 2017. 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 2016 and 2015 is shown in Appendix I.

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

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

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

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

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

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

To book business combinations the Group applies the acquisition method. The consideration transferred for the acquisition of a dependent entity corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners of the entity and the participations in equity issued by the Group. The consideration transferred includes the fair value of any asset or liability arising from an agreement covering contingent considerations. Identifiable assets acquired and 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 ventures, undertake an economic activity that is subject to joint control, that is, to a contractual agreement to share the power to govern the financial and operating policies of an entity or other economic activity, in order to benefit from its operations, in which the unanimous consent of all ventures, which share control and have rights to its net assets, is required for taking decisions on relevant activities.

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

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

The required disclosures regarding the Group investments in jointly-controlled entities at year-end 2016 and 2015 are provided in Appendix I. During 2016, there were variations in the scope of consolidation, with changes in jointly-controlled entities (Note 2.2.7).

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 2016 and 2015 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 2016 and 2015 amount to €5,892k and €6,105k, respectively (Note 25).

The relevant information of holdings in Associated Entities at 31 December 2016 and 2015 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 2016 and 2015 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 2016 and 2015, 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 2016 and 2015, no credit entity, national or foreign, or groups, as understood under article 4 of the Securities Market Law, which includes a credit entity, national or foreign, possesses any holding of more than 5% of the capital or voting rights of any credit entity included in the Group.

2.2.6) Structured entities

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

At 31 December 2016 and 2015 the contractual agreements for financial support to consolidated structured entities pertain to the support mechanisms which are commonly used in the securitisation market. There are no significant financial support agreements other than those covered by the relevant contracts. Note 26 to the consolidated annual accounts provides information on the balances related to consolidated structured entities.

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

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

2.2.7) Changes in the scope of consolidation

Changes in the scope of consolidation during 2016

During 2016, ISGA Inmuebles, S.A. carried out the merger by absorption of the Group's company Piensos del Norte, S.A. As a result of the merger, the Group no longer holds a direct interest in said company. Similarly, ISGA Inmuebles, S.A. has acquired all the equity in the companies Copesa Montecerrao, S.L. and Copesa Ciempozuelos, S.L. As a result of the acquisition of Copesa Ciempozuelos, S.L., the group has taken control of the assets and liabilities of that company, which has not had a significant impact on the consolidated financial statements as of December 31, 2016.

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.

2.3 Comparative information

The information drawn up for financial reporting purposes under IFRS-EU corresponds to the year ended 31 December 2016. Comparable figures are provided for 2015 in all instances.

These consolidated annual accounts have been adapted to Circular 5/2014 of 28 November and to Circular 3/2015 of 29 July of the Bank of Spain and the Circulars published by the Bank of Spain, which have amended Circular 4/2004, of December 22, and therefore, the terminology and presentation of certain items in the financial statements have been changed with respect to the consolidated annual accounts for the year 2015. Likewise, the information corresponding to the year 2015 included in these consolidated annual accounts has been re-elaborated under those criteria in a way that is comparative.

The main reclassifications for presentation purposes have been made on the assets side of the consolidated balance sheet, relating to demand deposits with credit institutions, which have been presented under the heading "Loans and receivables" ("Credit investments", in accordance with the old terminology of the consolidated balance sheet), to be recorded under the heading "Cash, cash balances at central Banks and other demand deposits" in the amount of €26,678k at 31 December 2015 (€17,832k at 1 January 2015). In addition, it has been reclassified from the heading "Other assets", ("Rest of assets", according to the old terminology of the consolidated balance sheet) to the heading “Loans and receivables”, relating to loans granted by the insurance business, an amount of €9,457k at 31 December 2015 (€10,311k at 1 January 2015)

In relation to the consolidated income statement the heading, "Mandatory appropriation to community projects and social funds" recorded in the consolidated annual accounts for the year 2015 has been reclassified in the comparative figures of 2015 under the heading "Other operating expenses", as detailed in the sub-ledger "Of which: Mandatory appropriation to community projects and social funds", thus having a direct effect on the Gross Income of the consolidated income statement, for the amount of €7,538k. Likewise, there have been reclassified under the headings “Income from assets under insurance and reinsurance contracts” and “Expenses on liabilities under insurance and reinsurance contracts”, the figures presented in the consolidated annual accounts for the year 2015, according to the old structure of the consolidated income statement, under the headings “Other operating revenue – Revenues for insurance and reinsurance policies issued” and “Other operating charges – Expenses for insurance and reinsurance policies issued” by amounts of €186,600k and €140,695k, respectively.

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 assessment of the ability to utilise the tax credits recognised (Note 13.p).
- The valuation of consolidated goodwill (Nota 13.ab).

Since these estimates have been made based on the best information available at 31 December 2016 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 2016 there have been changes in the accounting regulations applicable to the Group compared with those applied last year. A list of the changes that may be considered to be most relevant is provided below:

i) Standards, amended standards and interpretations effective for annual periods beginning on or after 1 January 2016

- 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". The "Effective Date" section of IFRS 2 retains the wording of the standard issued by the IASB which states: "Entities shall apply this change prospectively to share-based payment transactions with a grant date as from 1 July 2014."

- IFRS 3 "Business combinations": Accounting for contingent consideration in a business combination. The "Effective Date" section of IFRS 3 retains the wording of the standard issued by the IASB which states: "Entities will apply this change prospectively to business combinations with acquisition date as from July 1, 2014."

- 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 have not had a significant effect on the present 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 have not had a significant effect on the present 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 have not had a significant effect on the present 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 have not had a significant effect on the present 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.

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

- Annual improvements to IFRS 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 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 have not had a significant effect on the present 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 new amendments have not had a significant effect on the present Group's consolidated annual accounts.

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

ii) 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 2016

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 2017 and which the Group has not decided to apply early:

- 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 2016 and 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 2017, 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 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.

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

  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, which is not expected to have a significant impact.

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

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

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

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

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

The 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, as a result of a joint project with the FAS, which supersedes IAS 17 "Leases".

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

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

IFRS 16 will be effective for financial years starting on or after 1 January 2019. It is permitted its early application but only if IFRS 15 "Revenue from contracts with customers" is also applied.

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 7 (Amendment) "Disclosure initiative":

An entity is required to disclose information that enables users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- Cash flows, such as withdrawals and repayments of loans; and

- Non-monetary changes, such as acquisitions, disposals and unrealized exchange differences.

Liabilities arising from financing activities are liabilities for which cash flows were, or cash flows will be, classified in the cash flow statement as cash flows from financing activities. In addition, changes in financial assets (for example, assets covering liabilities arising from financing activities) should be included in the new disclosure requirement if the cash flows of those financial assets were included, or future cash flows will be included in the cash flows from financing activities.

The amendment suggests that the disclosure requirement would be to include a reconciliation between the initial and final balance sheet for liabilities arising from financing activities, but does not establish a specific format

The amendment will be effective for financial years starting on or after 1 January 2017.

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

  The amendments to IAS 12 clarify the requirements to recognize deferred tax assets on unrealized losses. The amendments clarify the accounting treatment of deferred tax when an asset is valued at fair value and that fair value is below the tax base of the asset. It also clarifies other aspects of accounting for deferred tax assets.

  The amendment will be effective for financial years starting on or after 01 January 2017.

  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 15 (Amendment) "Clarifications to IFRS 15 "Revenue from contracts with customers":

  The IASB has amended IFRS 15 to:

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

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

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

These amendments do not change the fundamental principles of IFRS 15, but do clarify some of the more complex aspects of this standard. The amendments could be relevant to a wide variety of entities and should be considered how management evaluates the impact of IFRS 15.

The amendment will be effective for financial years starting on or after 01 January 2018, subject to its adoption by the EU.

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

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

- The effects of the conditions for irrevocability and non-determining conditions for the irrevocability of the concession in the valuation of cash-settled share-based payments;

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

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

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

- IFRS 4 (Amendment) "Applying IFRS 9" Financial Instruments "with IFRS 4" Insurance Contracts ":

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

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

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

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

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.

- Annual improvements to IFRS 2014 – 2016 cycle:

The amendments affect IFRS 1, IFRS 12 and IAS 28 and will apply to annual periods beginning on or after 1 January 2018 in the case of amendments to IFRS 1 and IAS 28 and 1 January 2017 for the corresponding to IFRS 12, all of which are subject to its adoption by the EU. The main amendments relate to:

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

• IFRS 12, "Disclosure of interests in other entities": Clarification on the scope of the standard.

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

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 40 (Amendment) "Transfers of real estate investments":

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

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

- IFRIC 22 "Foreign currency transactions and advance consideration":

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

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

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

  The interpretation 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 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.

In 2016 and 2015 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.

(Expressed in €' 000)

- 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 2016 which the governing body of the Parent Entity will submit for the approval of the General Assembly, and that approved for 2015, is as follows:

	2016	2015
Appropriation:		
- Gross interest, distributed against the appropriation of gross surplus for the year, paid on share capital contributions	28,700	29,741
Share capital		
- Mandatory Reserve Fund	39,166	37,689
- Education and Development Fund (*)	-	-
- Reimbursements to members	19,583	18,845
- Inter-Coop Company Fund	11,750	11,306
Result for the year	99,199	97,581

(*) The amount earmarked to the Education and Development Fund corresponds to the minimum mandatory sum of €7,833k in 2016 and €7,538k in 2015 (Note 57).

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 2016 and 2015, are set out below:

	2016	2015
Consolidated income statement:		
Contribution to gross margin from insurance operations	36,826	39,533
Administration expenses	23,631	23,054
Surplus for the year	9,590	12,224
Consolidated balance sheet:		
Total assets	745,714	735,096

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 2016 and 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 7.38% 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. Similarly, based on the requirement of Pilar 1 of 8%, the minimum requirements phased-in of Total Capital is 10.88%.

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:

	2016	2015
Common Equity Tier 1 (CET1)		
Capital	712,951	708,397
Qualifying results	63,023	61,739
Reserves	766,460	723,234
Measurement adjustments	131,525	135,290
(-) Other deductions	(59,081)	(58,833)
(-) CET1 adjustments due to prudential filters	(85,204)	(91,950)
	1,529,674	1,477,877
Additional CET 1		
Qualifying equity instruments	-	-
	-	-
Common Equity Tier 2		
Equity instruments and subordinated loans	-	-
Complementary coverage for credit risks using standard method	33,506	78,002
Measurement adjustments	-	-
Education and Promotion Fund	-	-
(-) Transitional adjustments	-	-
	33,506	78,002
Other items and deductions	-	-
Total qualifying equity	1,563,180	1,555,879
Total minimum equity	739,321	781,824
Risk weighted assets	9,241,512	9,772,796

On 31 December 2016 and 2015, the following is the most significant data on the Group's minimum capital:

	2016	2015
CET 1 ratio	16.55%	15.12%
Tier 1 capital ratio	16.55%	15.12%
Total capital ratio	16.91%	15.92%

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	
	2016	**2015**
Chairman of the Governing Body	161	158
	161	158

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 2016 and 2015 are as follows:

	Short-term compensation and per diems	
	2016	**2015**
Members of the Governing Body	363	353
	363	353

Nine persons have been regarded as senior management personnel in the Parent Entity that belong to the Governing Body at 31 December 2016 (nine persons in 2015).

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

	Short-term compensation and per diems	
	2016	**2015**
Senior management	1,286	1,304
	1,286	1,304

(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 2016 and 2015 totalled €298.3 thousand and €264.7 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 2016 and 2015 in relation to the members of the Parent Entity's Governing Body and Senior Management:

	Interest revenue		Interest expense		Fee revenue	
	2016	2015	2016	2015	2016	2015
Directors and Senior Management	5	11	1	4	6	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 2016 and 2015.

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 2016 and 2015:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities – Fixed- term deposits and Demand deposits		Guarantees and commitments	
	2016	2015	2016	2015	2016	2015	2016	2015
Governing bodies and senior management	2,404	2,462	-	-	672	951	-	-

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 2016 and 2015, 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 2016 and 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 2016 and 2015, the Group did not deem it necessary to record any provision for risks and charges of an environmental nature as, in the opinion of the Governing Body of the Parent Entity, there are no contingencies under this heading that are likely to have a significant effect on these annual accounts.

10. Deposit Guarantee Fund

10.1 Single Resolution Fund

Directive 2014/59/EU 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, which establishes standards and procedures for credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at a European level.

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

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

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

In 2016, the expense incurred for the contribution to this body amounted to €4,836 thousand (€4,005 thousand in 2015) (Note 57), which has been recorded in accordance with IFRIC 21 in a way similar to the expense recognised with respect to the Deposit Guarantee Fund.

10.2 Deposit Guarantee Fund

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

Royal Decree 2606/1996, 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 2016, the Management Committee determined a contribution of 1.6 per thousand of the amount of the guaranteed deposits at 30 June 2016. The calculation of each entity's contribution was based on the amount of deposits guaranteed, and the risk profile of the entity taking into account indicators such as capital adequacy, the quality of the assets and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee fund has been set at 0.2% of each 5% of the guaranteed amount of the securities and other financial instruments at 31 December 2016

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 2016, the Parent Entity has recorded this commitment in the amount of €21,138 thousand (€24,660 thousand at 31 December 2015) under the heading Other assets – Rest of other assets side of the consolidated balance sheet (Note 34) and under Financial liabilities measured at amortised cost - Other financial liabilities (Note 36) on the liabilities side of the consolidated balance sheet.

Royal Decree-Law 6/2013 provided that, in order to strengthen the assets of the Deposit Guarantee Fund of Credit Institutions, the annual contribution envisaged under Article 3 of Royal Decree 2606/1996 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 0.3%.

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 31 December 2015, €10,480 thousand was outstanding, which have been paid on 30 June 2016, thus total amount of the second tranche has been satisfied.

In 2016, the expense incurred for all contributions to this Fund totalled €20,671 thousand (€20,033 thousand in 2015), which has been recognised under "Other operating expenses" in the accompanying consolidated income statement (Note 57).

11. Audit fees

The cost for the Group of external auditing services and other audit-related services in 2016 amounted to €486 thousand and €29 thousand, respectively (€442 thousand and €39 thousand in 2015, respectively). In addition, the cost of other services provided to the Group in 2016 amounted to €37 thousand (€162 thousand in 2015).

12. Events after the balance sheet date

In the period 31 December 2016 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

Classification

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

i) Cash, cash balances at central Banks and other demand deposits which correspond to cash balances and demand deposits held with central banks and credit institutions.

ii) Financial assets 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) Financial assets designated at fair value through profit or loss which include the financial assets that, while not forming part of the financial assets held for trading, 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, designated at fair value through profit or loss, credits, loans and receivables or financial assets held for trading and equity instruments in companies which are not subsidiaries, associates or Jointly-controlled entities and which have not been included in assets held for trading and financial assets designated at fair value through profit or loss categories.

v) Loans and receivables 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) Derivatives – Hedge accounting that include the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

viii) Fair value changes of the hedged items in portfolio hedge of interest rate risk 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.

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

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

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

Recognition and measurement

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 loans and receivables, the held-to-maturity investments, equity instruments whose fair value may not be determined in a sufficiently objective manner, investments in dependent, joint ventures and associates 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) Loans and receivables and the held-to-maturity investments 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 Loans and receivables that are hedged in fair-value hedging operations, any changes that occur in their fair value relating to the risk or the risks being hedged by said hedging operations are recorded.

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

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 income", and those which relate to other causes, which are carried at net value under "Gains or (-) losses on financial assets and liabilities held for trading, net" or "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net" in the consolidated income statement.

Variations in carrying value of the instruments included under Available-for-sale financial assets are recorded temporarily under "Accumulated other comprehensive income" 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 under the heading "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net".

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 Accumulated other comprehensive income 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 Accumulated other comprehensive 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 " Financial assets designated at fair value through profit or 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 2016 and 2015 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 2016 and 2015 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 Loans and receivables. 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 loans and receivables 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 "Financial assets held for trading".

None of the financial assets included in the held for trading and available-for-sale portfolios were reclassified in either 2016 or 2015.

f) Financial liabilities

Classification

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

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

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

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

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

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

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

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

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

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

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

Recognition and measurement

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

i) Financial liabilities included under the headings Financial liabilities held for trading and Financial liabilities designated at fair value through profit and loss are carried at fair value, as 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 expense, and those which relate to other causes, which are carried at net value under Gains or (-) losses on financial assets and liabilities held for trading, net" or "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, 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

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

i) If 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. (the latter settled early in 2016), to which the Group transferred certain loans in 2006, 2008 and 2011, respectively, are fully consolidated in the accompanying 2016 and 2015 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.

The calculation of the impairment of financial assets is made based on the type of instrument and other circumstances that may affect them, once the guarantees received have been taken into account. The Group recognizes both corrective accounts, when provisions for insolvency are made to cover estimated losses, and direct write-downs against the asset, when the recovery is estimated to be remote. Generally, 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 as impaired. If these interests are subsequently recovered, the amount collected is recognized on the consolidated income statement.

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

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

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

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

Accounting classification based on credit risk attributable to insolvency

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

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

1) Definition of the classification categories:

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

i) Standard exposures:

a. Operations which do not met the requirements to be classified into other categories.

b. Standard exposure subject to special monitoring: this includes all transactions that, while not meeting the criteria for individual classification as doubtful or write-off, present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures.

ii) Doubtful risk:

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

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

b. For reasons other than borrower arrears: comprises transactions, past due or not, in which, without concurring the circumstances to classify them as write-off or doubtful due to borrower arrears, there are reasonable doubts about their full repayment (Principal and interest) under the contractual terms; as well as off-balance sheet exposures not classified as doubtful as doubtful due to borrower arrears, whose payment by the Group is likely, but whose recovery is doubtful.

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

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

2) Classification criteria for transactions:

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

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

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

For the significant borrowers exists a predictive model of unpayment formed by a system of variables / alerts with which detects future situations of customer default, calibrates and quantifies its severity and establishes different levels of probability of default. An expert team of risk analysts analyses the borrowers with active alerts to conclude on the existence of weaknesses or objective evidence of impairment and, in the case of evidence of impairment, whether that event or events causing the loss have an impact on the estimated future cash flows of the financial asset or its group.

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

Refinancing and restructuring operations

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

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

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

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

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

Hedging operations

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

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

1) Individual estimates of allowances and provisions:

The following items must be estimated individually:

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

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

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

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

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

ii) Recovery of collateral approach: debtors without the capacity of generating future cash flows through their own business activity, estimating the re-payment of the debt through the execution of guarantees.

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

2) Collective coverage estimates:

The following items are subject to collective estimation:

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

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

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

The impairment estimation process takes into account all credit exposures, both debt instruments and off-balance sheet exposures. In this sense, the Group has used the parameters and methodology established by IFRS, this is a methodology of incurred-loss, as well as other local regulations, based on data and statistical models that add the average behaviour of Spanish banking sector entities and fullfit with the IFRS framework. They are applied to define the classification and calculation of the impairment of the balance sheet and off-balance sheet exposures that the Group maintains with its customers. This methodology takes into account, among other things, the segment of credit risk to which the transaction belongs, effective collateral and personal guarantees received, the economic-financial situation of the debtor and, if applicable, the age of overdue amounts.

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

The Group determines the amount to be recovered from effective collateral by applying over its reference value the discounts estimated by the Bank of Spain in its Circular 4/2004, based on its experience and information from the Spanish banking sector.

Classification and coverage of credit risk due to country risk

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

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

The Group does not have provisions for this concept at 2016 and 2015 closes, respectively.

Guarantees

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

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

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

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

   a. Complete buildings and parts thereof:

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

   b. Urban land and regulated building land.

   c. Other real estate.

ii) Collateral in the form of pledged financial instruments:

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

iii) Other types of collateral:

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

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

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

The real estate collaterals for credit operations and properties are appraised when they are granted or registered, the latter through a purchase, foreclosure or in lieu of payment and when the asset has suffered a significant reduction in value. In addition, it is applied the updating criteria ruled by Bank of Spain Circular 4/2004, amended by Circular 4/2016, among which stands out the annual update of doubtful risks and foreclosured assets as a general rule.

Debt securities measured at fair value

The amount of impairment losses incurred in debt securities 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 "Accumulated other comprehensive income" to consolidated equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, in the consolidated income statement for the recovery period.

In the case of debt securities classified 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.

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

Equity instruments

The amount of impairment losses incurred in equity instruments included under Available-for-sale financial assets is equal to the positive difference between their acquisition cost and their fair value less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses recognised directly under Accumulated other comprehensive income to consolidated equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, under "Accumulated other comprehensive income" 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 equity instruments classified under the heading Non-current assets and disposal groups classified as held for sale, any losses previously recognised in consolidated equity are considered realised and are recycled to the consolidate income statement at the time of classification as such.

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 2016 and 2015:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
US Dollars	62,406	24,162	60,917	26,101
Pounds sterling	7,034	711	11,805	1,108
Japanese yen	1,965	33	2,598	202
Swiss franc	1,210	199	3,062	198
Other	1,221	344	915	538
	73,836	25,449	79,297	28,147

The equivalent value in €'000 of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Group at 31 December 2016 and 2015 is as follows:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central Banks and other on demand deposits	8,652	-	12,897	-
Available- for- sale financial assets	48,901	-	54,497	-
Loans and receivables	16,283	-	11,903	-
Financial liabilities measured at amortized cost	-	24,751	-	27,013
Commitments and guarantees given	-	698	-	1,134
	73,836	25,449	79,297	28,147

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 Accumulated other comprehensive income to consolidated Equity, the component of the exchange rate relating to the revaluation of the non-monetary element is broken down.

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

i) Assets and liabilities are 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 Accumulated other comprehensive income to consolidated Equity.

None of the functional currencies of the Investees relates to economies deemed highly inflationary according to the criteria established in this respect. Therefore, at the 2016 and 2015 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 2016 amounted to €5,916k (€8,418k in 2015).

   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 2016 and 2015 to offset the direct costs of operations formalised are included under "Other operating income" in the consolidated income statement (Note 56).

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 49 and 50).

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

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

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

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

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

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

m) Leases

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

i) A lease is considered a finance lease when 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 heading loans and receivables on the consolidated balance sheet, in accordance with the nature of the lessee.

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

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

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

   When the Group acts as the lessor, the acquisition cost of the leased assets is recorded under Tangible assets - Property, plant and equipment. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated 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 the heading Fee and commission income in the consolidated income statement (Note 49).

ñ) Investment funds and pension funds managed by the Group

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

o) Staff costs and post-retirement remuneration

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

Post-employment remuneration is recognised as follows:

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

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

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

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

Dynamic payroll plan II

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 2016 and 2015 is recognised in the item "Provisions – Pensions and other post-employment defined benefit obligations" on the consolidated balance sheet at that date (Note 38).

Dynamic plan 1958

Likewise, in 2016 the Parent Entity approved a new plan called the "Dynamic plan 1958", which has been approved by the Governing Council and it is targeted at a specific group of members, with effect from 1 January 2017 to 30 June 2020. As with the previous plans, this new scheme is voluntary and targeted exclusively at certain individuals subject to a written request from them to sign up for the programme

The main characteristic of this new scheme is as follows:

i) members born in 1958 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.

The commitment accrued at year-end 2016 is recognised in the item "Provisions – Pensions and other post-employment defined benefit obligations" on the consolidated balance sheet at that date (Note 38).

New network

In 2016, the Parent Entity has defined specific labour and economic conditions for a particular group of members. Under this plan, certain members have subscribed to certain labour conditions and to receive a specific payment/financial benefit that will accrue until the date of termination of member's services.

The commitment accrued at year-end 2016 is recognised in the item "Provisions – Pensions and other post-employment defined benefit obligations" on the consolidated balance sheet at that date (Note 38).

Severance payments

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

p) Corporate income tax

Corporate income tax is considered to be an expense and is recorded under the heading Tax expense or (-) income related to profit from continuing operations 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.

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

- Forecast of results of entities that generated deferred tax assets (since there is no fiscal consolidation), based on the financial budgets approved by the Governing Bodies of each one, subsequently applying constant growth rates estimated by each Entity's management.

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

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

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

q) Tangible assets

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

r) Intangible assets

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

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

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

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

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

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

s) Inventories

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

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

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

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

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

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

u) Provisions and contingent liabilities

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

i) A legal or contractual provision.

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

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

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

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

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

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

At 31 December 2016 and 2015 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 and liabilities included in disposal groups classified as held for sale

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

When on an exceptional basis the sale is expected to take place in more than one year, the Group evaluates the selling costs in present terms and records the increase in value deriving from the passage of time under the heading Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated 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 included in disposal groups classified as held 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 and disposal groups classified as held for sale are generally measured at the lower of the carrying value at the time they are considered such and fair value net of the estimated selling costs of such assets, except those of a financial nature that are measured in accordance with the provisions of Note 13.e.xi). While they are classed as Non-current assets and disposal groups classified as held for sale, tangible and intangible assets which are depreciable/ amortizable by nature are not depreciated/ amortised.

In the case of real estate assets foreclosured 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 the market valuation amount of the asset received in its current state less the estimated selling costs, understanding it as the market value given in full individual appraisals less costs of sales.

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

After adjudication or receipt, the reference valuation is updated, which serves as the beginning for the estimation of the fair value. The Group for the purpose of determining fair value net of costs of sales takes into account both, valuations made by different valuation companies registered in the Special Registry of Bank of Spain and discounts on the reference value estimated by Bank of Spain, based on its experience and the information of Spanish banking sector. Also, when the property has a fair value less than or equal to 250,000 euros, updating is made by automated valuation models. In any case, when these properties reach a permanence of three years in balance sheet will be updated, in any case, by means of a full appraisal. In addition, the appraisal company, which makes the valuation update, will be different from who made the previous one.

In the event that the carrying value exceeds the fair value of the assets net of selling costs, the Group adjusts the carrying value of the assets by that excess amount, charging the heading Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated 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 Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated income statement.

Discontinued operations

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

- Represent a line of business or geographical area which is significant and separate from the rest.

- It's part of a single coordinated plan to dispose a line of business or geographical area which are significant and separate from the rest.

- Are subsidiaries acquired solely in order to be resold.

Income and expenses generated by Groups' components considered as discontinued operations are recorded under the heading gains or losses after tax from discontinued operations in the consolidated income statement, both when the business has been derecognise and when it continues to be recorded under assets at the end of the year. If subsequent to being presented as discontinued operations, operations are classified as continuing, their income and expenses are presented both in the consolidated income statement for the year and in the comparative year published in the consolidated annual accounts, under the corresponding items according to their nature.

w) Consolidated cash flow statement

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

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

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

iii) 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, cash balances at central banks and other demand deposits" in the consolidated balance sheets as cash and equivalents.

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

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

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

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

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

The Fund's property, plant and equipment is included under Tangible assets 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 accumulated other comprehensive income 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) Valuation gains or (-) loss taken to equity: 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) Transferred to profit or loss: 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) Transferred to initial carrying amount to 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 accumulated other comprehensive income 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 "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) Effects of changes in accounting policies and effects of error corrections: This includes changes in equity that arise as a result of the retroactive restatement of the balances in the financial statements originating from changes in accounting policies or error corrections.

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

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

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 acquire 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 acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquirer's identifiable net assets.

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 CAPM method, based on the formula: "Ke = Rf +β=company's systemic risk ratio, Rm = Expected market yield and α = Non-systemic risk premium".

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

Goodwill impairment losses are not subsequently reversed.

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.

(Expressed in €' 000)

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., 3,609 cases were brought in 2016 (2,868 in 2015), of which 3,393 were admitted (2,753 in 2015), which were responded to. 216 cases were not admitted (115 in 2015) for the reasons set out in the Customer Care Service Regulations as grounds for rejecting complaints or claims.

	2016	2015
No. files opened		
- In writing: brochure / letter	2,424	1,818
- Internet	1,054	927
- By telephone	2	4
- Public bodies: OMIC / Regional Governments	129	119
	3,609	**2,868**
No, case files processed	**3,393**	**2,753**
Nature of the Files		
- Complaints	2,686	2,054
- Claims	508	434
- Queries	14	14
- Suggestions	3	7
- Letters of congratulations / gratitude	2	4
- Sundry petitions	396	355
	3,609	**2,868**

	2016	2015
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	269	86
- Amounts relating to cases for which the decision favoured the Customer	373	157
. Indemnities paid by the Entity	371	156
. Indemnities paid by third parties	2	-
. Amounts returned to customers, recovered by the Entity	-	1
	642	**243**

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

	2016	2015
Economic terms	20%	17%
Commissions and expenses	23%	26%
Missing or inaccurate information	20%	20%
Centralised customer services	8%	10%
Information missing or incorrect	10%	2%
Coverage of needs	2%	3%
Aspects of customer relations	3%	2%
Campaigns in general	1%	2%
Other:	13%	18%
- Swift and efficient service at branches	*1%*	*3%*
- Swift and efficient service at ATMs	*3%*	*3%*
- Miscellaneous	*8%*	*11%*
- Swift handling of formalities	*1%*	*1%*
	100%	100%

(Expressed in €' 000)

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

	2016	2015
= < 10 €	0.10%	0.19%
> 10 < = 60 €	0.71%	1.55%
> 60 < = 100 €	0.30%	0.56%
> 100 < = 250 €	0.93%	2.37%
> 250 < = 1,000 €	3.52%	12.68%
> 1,000 €	94.44%	82.65%

With respect to the customer service activity of Seguros Lagun Aro Vida, S.A., 27 complaints and claims were received in 2016 (2015: 22), of which 29 were classified as admissible (2015: 27). The main grounds for the claims and complaints were disagreements over compensation and redemptions. The results of the cases handled in respect of those classified as admissible in the course of 2016 and 2015 were as follows:

	2016	2015
In favour of the customer	10	15
In favour of the Entity	16	12
Other	3	-
	29	27

The cost for the Entity of total complaints and claims favourable to customers has amounted to €4,992 in 2016 (€22,258 in 2015). Complaints and claims have on average been addressed within 15 days (9 days in 2015).

With respect to the Customer Ombudsman Department of Seguros Lagun Aro Vida, S.A., during the year 765 claims and complaints were made (706 in 2015), of which 768 were processed during 2016 (688 in 2015). 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 2016 and 2015 are as follows:

	2016	2015
In favour of the customer	355	267
In favour of the Entity	377	386
Other	36	35
	768	688

The cost for the Entity of total complaints and claims favourable to customers has amounted to €54,897 in 2016 (€40,014 in 2015). Complaints and claims have on average been addressed within 13 days (10 days in 2015).

(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 2015), and 9 cases were processed during 2016 (12 in 2015). 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 2016 and 2015 was as follows:

	2016	2015
In favour of the customer	4	7
In favour of the entity	2	5
Other	3	-
	9	12

Total complaints and claims favourable to customers entailed a cost for the Group of €316 euro during 2016 (€0 in 2015). The average response time in 2016 was 6 days (10 days in 2015).

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 Council 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 for SMEs and large companies.

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.

With regard to credit risk with individuals and companies, all these aspects are specified in the Risk Policy Manual, which latest update has been approved by the Governing Council on 28 February 2017, 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, through Large Companies Risk Analysis and SME Risk Analysis sections, is responsible for the acceptance and follow-up of the portfolio companies. The objective of the Friendly and Precontentious Recovery section is to manage the protocols associated with pre-default alerts in non-portfolio companies as well as maximising recoveries during the amicable phase (< 75 days of non-payment) and the pre-litigation phase (> 75 days of non-payment), while the Global Risk Control Department is responsible for developing and maintaining the internal models, as well as the measurement and control of structural interest rate and liquidity risk, market risk and operational risk. Finally, the Legal Counsel Department gives advice and legal documentary coverage for risk operations both in the initial stages and in possible debt refinancing or restructuring, as well as for the management of the recovery in litigation and the Entity's legal defence against claims by third parties and customers.

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

These internal models, prepared by the Risk Control Department and submitted to systematic reviews, are employed, therefore, in the decision process and, additionally, for the construction and development of integrated databases that allow calculations to be made of the severity, expected losses, capital consumption, etc., in the framework of the requirements of the New Basel Agreement on Capital. Moreover, both the scoring 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. All of this is reflected in the documents "Risks Scope Treasury and MC" and its Annexes, approved by the Governing Council, and which establishes the risk policy of Treasury and Capital Markets of the Parent Entity.

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(Expressed in €' 000)

The table below shows the breakdown of the Group's customer loan book at 31 December 2016 and 2015 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):

2016

				Loans with real guarantee. Carrying amount on the latest available valuation *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: Other collateral**	**≤ 40%**	**> 40% ≤ 60%**	**> 60% ≤ 80%**	**> 80% ≤ 100%**	**> 100%**
Government bodies	330,924	40,425	377	-	16,976	1,318	3,307	19,201
Other financial corporates and individual entrepreneurs	22,487	-	604	-	-	-	-	604
Other non-financial corporates and individual entrepreneurs	2,335,091	747,050	322,794	468,658	252,462	148,543	54,394	145,787
– Property construction and development	92,628	91,754	479	6,409	12,720	13,842	19,623	39,639
– Public works construction	72,649	8,958	3,230	4,119	1,679	1,887	2,571	1,932
– Other purposes	2,169,814	646,338	319,085	458,130	238,063	132,814	32,200	104,216
Large corporates	251,062	34,654	8,005	9,908	1,944	3,614	149	27,044
SMEs and individual entrepreneurs	1,918,752	611,684	311,080	448,222	236,119	129,200	32,051	77,172
Other households	10,757,571	10,141,782	31,928	2,694,152	2,987,540	2,855,529	613,796	1,022,693
– Home mortgage	10,184,861	9,958,863	9,595	2,591,725	2,940,036	2,823,986	606,993	1,005,718
– Consumer loans	358,627	46,525	1,401	31,792	9,045	3,341	493	3,255
– Other	214,083	136,394	20,932	70,635	38,459	28,202	6,310	13,720
TOTAL	13,446,073	10,929,257	355,703	3,162,810	3,256,978	3,005,390	671,497	1,188,285
MEMORANDUM ITEM								
Loan refinancing and restructuring transactions	793,033	581,127	48,517	181,376	159,185	114,201	54,668	120,314

2015

				Loans with real guarantee. Carrying amount on the latest available valuation *(loan to value)*				
	Total	**Of which: Real estate collateral**	**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 corporates and individual entrepreneurs	77,391	-	390	-	-	-	-	390
Other non-financial corporates and individual entrepreneurs	2,331,451	846,912	355,740	446,632	248,269	167,208	57,395	283,148
– Property construction and development	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	2,187,316	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	1,975,051	732,474	340,993	421,018	235,515	146,678	49,080	221,176
Other households	11,016,727	10,370,411	65,395	2,763,023	3,065,888	3,276,496	793,859	536,540
– Home mortgage	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	13,680,894	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

(Expressed in €' 000)

A breakdown of the maximum credit risk covered by each of the primary guarantees and 31 December 2016 and 2015 is set out below:

2016	Real estate guarantee	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Measurement adjustments	Total
Customer loans and advances								
Drawn down	11,127,088	21,224	398,992	624,608	1,625,540	148,385	(449,042)	13,496,795
Value of the guarantee	28,928,276	31,704	1,637,995	624,608	167,168	-	-	31,389,751

2015	Real estate guarantee	Pledge guarantee	Other real guarantees	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Measurement adjustments	Total
Customer loans and advances								
Drawn down	11,545,489	27,488	468,730	603,299	1,718,680	(17,045)	(612,994)	13,733,647
Value of the guarantee	29,763,051	31,614	1,986,381	603,299	187,890	-	-	32,572,235

The value of guarantees received to ensure collection of operations with customers, distinguishing between real guarantees and other guarantees at 31 December 2016 and 2015 is as follows:

Value of guarantees received	2016	2015
Value of real guarantees	30,566,271	31,749,432
Of which: guarantees doubtful risks	*1,504,725*	*1,841,836*
Value of other guarantees	823,480	822,803
Of which: guarantees doubtful risks	*5,119*	*5,352*
Total value of guarantees received	**31,389,751**	**32,572,235**

The following is information of value of the financial guarantees granted at 31 December 2016 and 31 December 2015:

	2016	2015
Loan commitments granted	893,307	861,013
Of which: amount classified as doubtful	*2,729*	*7,214*
Amount recorded in liabilities	-	-
Financial guarantees granted	108,848	83,656
Of which: amount classified as doubtful	*16,615*	*51,688*
Amount recorded in liabilities	25,411	31,187
Other commitments granted	302,663	297,976
Of which: amount classified as doubtful	-	-
Amount recorded in liabilities	-	-

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:

(Expressed in €' 000)

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

Financing destined to construction and real estate and coverage at 31 December 2016 and 2015 was as follows:

	2016		
	Gross carrying amount	**Excess gross exposure over maximum recoverable amount of effective real guarantees**	**Accumulated impairment**
Financing to construction and real estate promotion (business in Spain)	**195,600**	**90,128**	**100,096**
Of which, doubtful	164,481	81,568	99,301
For Notes:			
Failed assets	297,241		

For Notes:	**Amount**
- Loans to clients, excluding government bodies (business in Spain)	13,115,149
- Total asset (total businesses)	21,314,166
- Impairment and provisions for normal rated exposures (total business)	97,431

	2015		
	Gross carrying amount	**Excess gross exposure over maximum recoverable amount of effective real guarantees**	**Accumulated impairment**
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:	**Amount**
- Loans to clients, excluding government bodies (business in Spain)	13,337,610
- Total asset (total businesses)	21,584,975
- Impairment and provisions for normal rated exposures (total business)	92,316

(Expressed in €' 000)

The following is a breakdown of financing for construction, real estate promotion and home purchase at 31 December 2016 and 2015:

	Financing to construction and real estate promotion. Gross carrying amount	
	2016	2015
Without mortgage guarantee	15,431	6,347
With mortgage guarantee	180,169	338,500
Finished buildings	119,319	157,802
Homes	104,269	121,835
Others	15,050	35,967
Buildings under construction	2,342	35,164
Homes	2,342	34,534
Others	-	630
Land	58,508	145,534
Developed land	58,508	11,527
Other land	-	134,007
Total	195,600	344,847

The breakdown of credit to households for home purchase at 31 December 2016 and 2015 is as follows:

	2016		2015	
	Gross amount	Of which, doubtful	Gross amount	Of which, doubtful
Loans for home purchase	9,901,578	251,857	10,106,210	240,623
Without mortgage guarantee	177,899	3,015	197,017	1,947
With mortgage guarantee	9,723,679	248,842	9,909,193	238,676

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 2016 and 2015 is as follows:

	Gross carrying amount on the last available valuation *(loan to value)* 2016					
	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 carrying amount	2,395,482	2,877,684	2,805,969	617,116	1,027,427	9,723,678
Of which, doubtful	20,914	34,509	50,604	49,599	93,216	248,842

	Gross carrying amount on the last available valuation *(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 carrying 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

(Expressed in €' 000)

The breakdown of assets received in payment of debt at 31 December 2016 and 2015 is as follows:

	2016		2015	
	Gross carrying amount	Accumulated value impairment	Gross carrying amount	Accumulated value impairment
Real estate assets from financing to construction and real estate promotion companies	**516,613**	**307,372**	**594,528**	**303,479**
Finished buildings	39,145	15,468	42,933	11,141
Homes	36,284	13,966	40,459	10,858
Others	2,861	1,502	2,474	283
Buildings under construction	25,550	12,439	79,739	32,531
Homes	25,550	12,439	79,739	32,531
Others	-	-	-	-
Land	451,918	279,465	471,856	259,807
Developed land	66,063	46,944	65,705	41,165
Other land	385,855	232,521	406,151	218,642
Real estate assets from mortgage financing to households for home purchase	**34,210**	**6,879**	**40,742**	**4,240**
Other real estate assets received in payment for debt	**23,016**	**4,595**	**18,136**	**2,175**
Equity instruments foreclosured or received in payment for debt	**-**	**-**	**-**	**-**
Equity instruments of entities holding foreclosured real estate assets or received in payment for debt	**-**	**-**	**-**	**-**
Financing to entities holding foreclosured real estate assets or received in payment for debts	**14,291**	**6,718**	**7,771**	**198**
Total	**588,130**	**325,564**	**661,177**	**310,092**

The breakdown of value of guarantees received linked to financing for construction and real estate development at 31 December 2016 and 2015 is as follow:

Value of guarantees received– Construction and real estate development	**2016**	**2015**
Value of real guarantees	464,335	667,684
Of which: guarantees doubtful risks	*360,672*	*555,668*
Value of other guarantees	58	13,090
Of which: guarantees doubtful risks	-	-
Total value of guarantees received	**464,393**	**680,774**

The breakdown of value of the financial guarantees granted for operations of construction and real estate development at 31 December 2016 and 2015 is as follow:

	2016	**2015**
Financial guarantees granted for operations of construction and real estate development	20,056	23,776
Amount recorded in liabilities	3,407	7,411

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.
  - Construction. The borrower and the financing project must meet stringent requirements to ensure their viability.
    - Only for developers with proven solvency. They require proven experience in the sector and a healthy balance sheet with a sustainable volume of debt and feasible projects.
    - Requirements to be met by projects:
      - Land must be free of charges and encumbrances and paid for in full, i.e. without any outstanding payments, resolutory conditions or guarantees linked to its purchase, swaps, etc.
      - The promoter must provide at least 30% of the total cost of the project or the land value if higher.

        If the land purchase is recent, the value of the land is considered to be the lower of the purchase value net of taxes and the appraised value.

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

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

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

In compliance with Law 8/2012, at 31 December 2016 and 2015 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 2016 and 2015 of the assets in said companies amounts to €710,202 thousand and €787,412 thousand, respectively. At 31 December 2016, the balance of financing and capital or shareholder contributions to said companies amounted to €710,202 thousand and €56,299 thousand, respectively (€787,412 thousand and €5,030 thousand, respectively, at 31 December 2015) which at said date recorded an impairment adjustment of €511,512 thousand and €37,486 thousand, respectively (€505,364 thousand and €4,060 thousand respectively at 31 December 2015).

b) Refinancing transactions

The risk restructuring policy approved by the Group defines transaction restructuring as a risk management instrument designed to facility an amicable recovery. Accordingly, the Group distinguishes between refinancing transactions, in which a new loan is granted to extinguish an existing one, and restructuring transactions, in which one or more terms of an existing transaction are modified.

This policy stipulates that the power to authorise these kinds of transaction, regardless of whether or not there is a non-payment issue, resides exclusively with the Risk Management Department in its different sections.

No refinancing and / or restructuring operation may be classed, for purposes of doubt, as normal; the typologies of classification may be:

A) Standard exposure subject to special monitoring

Those that are not Doubtful or Failed, but have weaknesses. Operationally, this kind of classification will be assigned by discard; If the refinancing / restructuring operation is not classified in any of the typologies indicated below, it will remain as standard exposure subject to special monitoring.

The cover of credit risk loss (necessary provision) will be made by collective estimation. Those that are not Doubtful or Failed, but have weaknesses.

(Expressed in €' 000)

B) Doubtful as a result of borrower arrears

Those in which the refinanced or restructured operations have over 90 days past due.

The cover of credit risk loss (necessary provision) will be made by collective estimation, except for those considered "significant" (€3 million euro); where the Risk Analyst is who establishes the required provision.

C) Doubtful for reasons other than borrow arrears

Those in which there are reasonable doubts about their full repayment. Indications or indicators will be observed to support this situation.

In compliance with the amendments introduced by Circular 6/2012, of 28 September, and Circular 4/2016, of 27 April, 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 2016 and 2015 of refinancing, refinanced and restructured transactions:

2016

	TOTAL							Of which: doubtful						
	Without real guarantee		With real guarantee				Accumulated impairment value	Without real guarantee		With real guarantee				Accumulated impairment value
					Maximum amount of real guarantee to be considered							Maximum amount of real guarantee to be considered		
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other real guarantees		Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Real estate collateral	Other real guarantees	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government bodies	11	56,572	15	18,184	12,153	-	-	-	-	1	7,372	7,372	-	-
Financial institutions and individual entrepreneurs	3	277	-	-	-	-	(1)	-	-	-	-	-	-	-
Non-Financial institutions and individual entrepreneurs	1,761	116,724	1,798	411,382	155,769	40,804	(195,066)	601	29,124	774	243,594	74,033	13,357	(163,414)
Of which: Financing for construction and promotion (including land)	*9*	*271*	*140*	*129,000*	*48,176*	*346*	*(75,482)*	*6*	*241*	*111*	*119,210*	*39,160*	*346*	*(74,967)*
Rest of households	1,554	20,310	5,147	407,883	355,128	5,377	(43,232)	623	5,887	1,355	130,168	89,661	2,656	(42,226)
TOTAL	**3,329**	**193,883**	**6,960**	**837,449**	**523,050**	**46,181**	**(238,299)**	**1,224**	**35,011**	**2,130**	**381,134**	**171,066**	**16,013**	**(205,640)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in €' 000)

2015

	TOTAL							Of which: doubtful						
	Without real guarantee		With real guarantee				Accumulated impairment value	Without real guarantee		With real guarantee				Accumulated impairment value
	Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of real guarantee to be considered			Number of operations	Gross carrying amount	Number of operations	Gross carrying amount	Maximum amount of real guarantee to be considered		
					Real estate collateral	Other real guarantees						Real estate collateral	Other real guarantees	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government bodies	12	59,249	11	17,009	8,807	-	(114)	-	-	1	7,600	7,486	-	(114)
Financial institutions and individual entrepreneurs	4	372	-	-	-	-	-	-	-	-	-	-	-	-
Non-Financial institutions and individual entrepreneurs	2,051	150,450	1,915	535,661	210,805	42,315	(292,024)	573	44,650	866	413,513	111,397	14,719	(278,099)
Of which: Financing for construction and promotion (including land)	*5*	*1,083*	*201*	*225,775*	*71,822*	*711*	*(157,170)*	*5*	*1,083*	*201*	*225,775*	*61,132*	*711*	*(155,162)*
Rest of households	1,758	17,064	5,184	411,972	346,176	6,130	(35,298)	644	5,943	1,208	115,724	79,020	3,740	(34,149)
TOTAL	**3,825**	**227,135**	**7,110**	**964,642**	**565,788**	**48,445**	**(327,436)**	**1,217**	**50,593**	**2,075**	**536,837**	**197,903**	**18,459**	**(312,362)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The next table shows the breakdown at year-end 2016 and 2015 of the gross amounts of transactions classified as doubtful during the year subsequent to their refinancing or restructuring:

	2016		
	Gross amount		
	Mortgage guarantee	Other collateral	Unsecured
Government bodies	-	-	-
Other legal persons and individual entrepreneurs	4,839	857	6,953
Of which: Construction and development loans	*742*	*199*	-
Other physical persons	13,069	6,213	499

	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

(Expressed in €' 000)

The value of guarantees received to ensure collection of refinancing and reestructuring operations, distinguishing between real guarantees and other guarantees at 31 December 2016 and 2015 is as follows:

Value of guarantees received – Refinancing	2016	2015
Value of real guarantees	2,121,384	2,335,469
Of which: guarantees doubtful risks	*845,015*	*1,040,150*
Value of other guarantees	7,257	10,234
Of which: guarantees doubtful risks	*2,355*	*2,315*
Total value of guarantees received	**2,128,641**	**2,345,703**

The detailed movement of refinancing and restructuring operations, net of provisions, in 2016 and 2015 is as follows:

	2016	2015
Opening balance	**864,341**	**923,048**
(+) Refinancing and restructuring of the year	51,413	164,206
Pro-memory: impact recorded in income statement of the period	*11,354*	*63,794*
(-) Debt payments	(149,225)	(271,469)
(-) Adjudications	(263)	(6,685)
(-) Balance write-off (reclassification to failed)	(8,738)	(12,052)
(+)/(-) Other variations	35,505	67,293
Closing balance	**793,033**	**864,341**

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 context, it should be noted that, on one hand, Parent Entity has made, in 2016 the Risk Appetite Framework document, which identifies the different thresholds of appetite and tolerance for certain key indicators of liquidity risk and, on the other hand, the Recovery Plan, which updates said alert levels and action protocols relating to liquidity crisis situations.

As regards the tasks forming part of the procedures, liquidity management is supported by a control system that, on one hand determines key indicators limits like medium-term liquidity objectives and, on the other hand, systematically monitors the level of compliance with the objectives. These 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 2014, the liquidity coverage ratio (LCR); the Entity's LCR is at high levels at year-end 2016, well above the limit stipulated by the regulator for 1 January 2017.

Specifically, at year-end 2016, the Parent Entity has:

- An LCR of 356%.

- Liquid discountable (and available) assets in the European Central Bank (ECB) of €4,196 million (following the application of haircuts), which allow unexpected contingencies to be dealt with. Of this amount, €653 million is available as an ECB loan and €3,543 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 83.2%.

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

    - With an amount of €1,225 million, which represents 5.9% of the total balance. From this amount Bonds for the portfolio of repurchased stock, securitisations and ICO financing have been excluded, since their maturity flows are matched with those corresponding to assets they finance.

    - 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 €1,225 million (Note 36).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 €209 million (Note 36), and holds €19 million with respect to financing obtained through the ICO, although as mentioned above they do not require refinancing at maturity.

    - Diversification with respect to maturity. The mortgage secured bonds mature as from 2019, on a diversified basis.

The Entity's financing structure is analysed below:

Financing structure	2016 Euro millions	2016 %
Client deposits	15,294	74.02%
Mortgage bonds (1)	1,225	5.93%
ECB financing	-	0.00%
Securitisation (1)	209	1.01%
ICO and EIB financing	19	0.09%
Total Assets	20,662	

(1) Excluding own repurchased portfolio,

Set out below is a breakdown of wholesale financing by maturity date as from 2017:

Maturities of wholesale issues	Euro millions 2017	2018	2019	>2019
Mortgage Bonds	-	-	100	1,125
Territorial Bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	27	24	23	135
Taken from ECB	-	-	-	-
ICO and EIB financing	6	4	3	6
	33	28	126	1,266

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 31.12.2016 Utilised	Available
Net Liquid assets (2)	-	4,196

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

Issue Capacity	Euro millions
Issue capacity in Mortgage Bonds	3,957
Issue capacity in Territorial Bonds	225
Disposable in issues guaranteed by the State	-
	4,182

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):

2016

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	17,873	81	625	544	503	825	6,224	9,072
TOTAL cash outflows	(17,976)	(12,193)	(782)	(798)	(1,064)	(1,592)	(1,438)	(110)
Net	(103)	(12,112)	(157)	(254)	(561)	(767)	4,786	8,962

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)
Net	(36)	(10,481)	(666)	(375)	(78)	(840)	4,145	8,259

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 31.12.16	**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	19,272	4,450	3,584	6,997	1,358	750	372	924	837
Money market	707	586	100	21	-	-	-	-	-
Credit market	14,250	2,958	3,320	6,012	416	262	199	193	890
Securities market	4,315	906	164	964	942	488	173	731	(53)
Sensitive liabilities	18,143	5,126	2,191	*5,300*	*125*	*34*	*26*	*5,345*	*(4)*
Money market	1,738	471	526	617	7	6	6	105	(0)
Creditors	16,405	4,655	1,665	4,682	119	28	20	5,240	(4)
Simple GAP		(676)	1,392	1,697	1,232	716	346	(4,421)	841
% of total liabilities		(4%)	7%	9%	6%	4%	2%	(23%)	4%
Cumulative GAP		(676)	717	2,414	3,646	4,362	4,709	287	1,128
% of total liabilities		(4%)	4%	13%	19%	23%	24%	1%	6%

	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%

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 3.84% 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 five-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 decrease in interest rates would increase the Entity's economic value by €39.3 million, roughly 2.52% of own funds (capital and reserves). Likewise, an increase of the same magnitude would increase the Entity's economic value by €48.7 million, roughly 3.12% 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 the financial markets, during the financial year 2016 three milestones could be identified that clearly conditioned their evolution.

The first occurred at the beginning of the year and refers to the minimum that registered oil price at the end of January. In the second half of the previous year oil had resumed the downward trend that had begun in July 2014, a move that ended in late January 2016 when BRENT stroke a price of $26 per barrel, 27% lower than the closing price at the year-end, when barely a year and a half before it was stable at levels of $115 per barrel.

This extreme movement led markets to fear a crisis in emerging markets (many heavily dependent on commodity exports) and many US companies that had large investments in the new shale oil & gas industry. In addition, this movement accentuated fears of a bigger deflationary scenario which caused the implicit inflation discounted by the market to be at historical lows.

Fortunately, the movement did not continue and the oil prices (and other commodities) were recovering to a range from $45 to $55 per barrel (which undoubtedly contributed, among other factors, the coordinated actuation made by OPEC countries and major non-OPEC producers to cut down production).

The second one, of special relevance for the European markets, occurred in the middle of the year when the UK held a referendum on its continuity in the European Union. Against all odds, British people voted in favour of a exit from the European Union, which in the opinion of many analysts, on the one hand, confirmed that the old policies (especially those concerning globalization) were beginning to generate a popular discontent of great magnitude capable of altering the balance of established power and on the other could serve as a dangerous precedent that would show and encourage other countries to take the same path.

The third one, took place at the end of the year with the elections in the US in November, where again against all odds, Donald Trump, an absolutely atypical candidate who campaigned for the implementation of policies totally opposed to the old ones (more Fiscal spending, anti-globalization protectionist measures, etc.). Again popular discontent emerges as a factor that makes evident the need to implement new ways to do things.

To these three milestones should be added the evolution of macroeconomic variables and the performance of the central banks, which in one way or another has also been conditioned by the events described above, to complete the scenario in which the financial markets have evaluated.

In terms of macroeconomic data, we would point out that growth in 2016 was a year of slight deceleration at global level, with global GDP growth at 3.1%, one tenth lower than the previous year. In addition, this growth was somewhat skewed, with developed economies registering a slower growth (registering a growth of 1.6%, five tenths lower than in the previous year) than the emerging economies (which even surpassed in one tenth the growth rate of prior year standing at 4.1%). The evolution throughout the year improved gradually, with a clear activity boost in last quarter. On the price side, while average inflation in developed countries was generally very low (close to zero in most European countries and even negative in some countries such as Spain), the recovery of oil prices in the second half of the year and the base effect allowed year-on-year rates to be significantly higher, albeit far from worrying levels.

About central banks, we would highlight three main ideas. Firstly is that monetary policy implemented by the main central banks remained very expansive and interventionist in markets. Secondly was that the gap between the FED and the ECB and BOJ policies was deepened. Thirdly, their action was very influenced by events described at the beginning of this note.

ECB and BOJ were very sensitive to the first quarter events and Brexit, which in the case of the ECB led to additional extraordinary measures, such as the establishment of a rate of -0.40% for the marginal facility and extension of QE in amounts, in underlying assets (including corporate debt) and the duration of program (until the end of 2017), while the BOJ increased its purchasing program and the FED demonstrated its "sensitivity" by delaying the forecasted increases in its rate of intervention and sending reassuring messages to markets. At the end of the year, given that uncertainties had been substantially reduced and there has been improvement in macro data and the surprisingly positive market reaction to Trump's victory, FED made the second rate raise (+ 0.25%) since it began its new bullish cycle on December 2015.

Another important element in relation to central banks is that at the end of summer, the perception that certain extraordinary policies such as negative interest rates and massive purchases of bonds may be ineffective, counterproductive (by its effect on the financial sector's profitability or the appearance of certain bubbles), producing statements from certain organizations taking place and a change in monetary policy objective of BOJ (from a quantitative balance objective to a target of setting 10-year rate at around 0%), which has a considerable impact on interest rate curves, in terms of positivization of curves due to the increase in long rates.

With this background, 2016 was a favourable year for the majority of financial assets, which in general registered relatively high yields at the end of the year and with high volatility at certain moments of the year.

By Underlyings, equities posted positive returns on most of the major indices, in both developed and emerging markets. The MSCI world index registered +5.32%, S&P registered +9.54%, FTSE 100 registered 14.43% and NIKKEI 225 registered +0.42%. In euro area dispersion was quite high. While its main benchmark EUROSTOXX 50 closed flat (+ 0.70%) after having registered two annual lows in February and June, which represented declines closed to 20% compared to the year-end closing levels, German index and French index show positive returns of 6.87% and 4.89% respectively, while on the negative side IBEX and Italian index recorded decreases of -2.01% and -10.20% respectively. In emerging markets, MSCI Emerging rose +8.58%, being the most outstanding Brazil index with +38.93% and Russian index with +26.76%.

In fixed income markets, most sovereign bonds, corporate debt grade investment, high yield as well as emerging fixed income, registered positive returns. On one hand, two thirds of all sovereign bonds in euro area have listed negative product of ECB QE implementation. The IRR of German bond, for example, went from 0.63% at the end of 2015, to a low of -0.19% in August, ending the year at 0.20%, while the rest of German curve showed negative returns for up to 8 years. On the other hand, the Spanish's sovereign bonds curve presented at the end of year negative IRR until 4 years term.

Long rate rebound recorded in last quarter reversed much of the capital gains accumulated until September the sovereign debt indexes.

On the other hand, emphasized the excellent behaviour of fixed-income indices with more risk. Thus, most of the emerging and high yield indexes, after a complicated beginning of the year in which they accumulated losses of some consideration (until mid-February), ended the year with returns higher than 10%.

Lastly, and in terms of the evolution of currency markets, the highlights were on one hand, the slight appreciation of dollar against the main currency pairs, while on the other hand, euro and Chinese yen registered a slight depreciation trend and British pound suffered a sharp decline after Brexit. Emerging currencies highlighted Brazilian real and the Russian rubble with revaluations above 15% against the dollar.

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 55 coordinators and 30 validators to perform the functions required by the system (self-assessments and action plans). In December 2016 the tenth 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.

At the date of preparation of these annual accounts, the Parent Company's Directors confirm that an internal risk and solvency assessment has been carried out and that the Group's Insurance Companies comply with the overall solvency requirements taking into account their profile Risk tolerances, approved risk tolerance limits as well as business strategy.

It has implemented processes that are proportionate to the nature, volume and complexity of inherent risks to its activity and that enable to determine and evaluate the short and long term risks which the Group's Insurance entities are or could be exposed.

In addition, the Parent's Directors confirm that the Group's Insurance entities are complianced with capital requirements and technical provisions requirements.

21. Risk concentration

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

At 31 December 2016 and 2015, 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 2016 and 2015, are as follows:

2016

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of world
Central Banks and credit institutions	1,298,988	609,054	675,862	10,976	3,096
Public administrations	5,216,406	5,177,481	38,925	-	-
– Central administration	4,693,543	4,654,847	38,696	-	-
– Other public administrations	522,863	522,634	229	-	-
Other financial corporates and individual entrepreneurs	349,385	75,560	220,470	25,654	27,701
Other non-financial corporates and individual entrepreneurs	2,805,342	2,735,828	60,896	5,325	3,293
– Property construction and development	151,731	151,731	-	-	-
– Public works construction	146,565	146,514	51	-	-
– Other purposes	2,507,046	2,437,583	60,845	5,325	3,293
Large corporates	458,724	395,976	56,354	3,329	3,065
SMEs and individual entrepreneurs	2,048,322	2,041,607	4,491	1,996	228
Other households	10,768,600	10,749,575	14,786	2,557	1,682
– Home mortgages	10,185,915	10,167,723	14,138	2,396	1,658
– Consumer loans	358,627	358,270	287	46	24
– Other	224,058	223,582	361	115	-
TOTAL	20,438,721	19,347,498	1,010,939	44,512	35,772

2015

	Total (Carrying amount) (a)	Spain	Rest of the EU	America	Rest of world
Central Banks and credit institutions	1,826,522	1,071,475	738,961	7,185	8,901
Public administrations	4,504,423	4,477,285	27,138	-	-
– Central administration	3,965,264	3,938,473	26,791	-	-
– Other public administrations	539,159	538,812	347	-	-
Other financial corporates and individual entrepreneurs	620,108	313,230	247,223	55,991	3,664
Other 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	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	20,582,654	19,476,819	1,111,984	67,299	17,041

(a) The definition of exposures includes loans and receivables, debt securities, equity instruments, derivatives held for trading, hedging derivatives, investments in dependent, joint ventures and associates and guarantees given, no matter under which balance sheet heading are recorded.

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 guarantees given.

(Expressed in €' 000)

2016

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Central Banks and credit institutions	609,054	33,136	-	541,566	34,352
Public administrations	5,177,481	236,678	9,908	270,953	4,659,942
– Central administration	4,654,847	-	-	-	4,654,847
– Other public administrations	522,634	236,678	9,908	270,953	5,095
Other financial corporates and individual entrepreneurs	75,560	15,255	679	56,354	3,272
Other non-financial corporates and individual entrepreneurs	2,735,828	1,670,752	264,888	207,472	592,716
– Property construction and development	151,731	103,109	8,989	2,174	37,459
– Public works construction	146,514	75,826	5,915	55,421	9,352
– Other purposes	2,437,583	1,491,817	249,984	149,877	545,905
Large corporates	395,976	290,412	21,036	42,363	42,165
SMEs and individual entrepreneurs	2,041,607	1,201,405	228,948	107,514	503,740
Other households	10,749,575	6,035,810	1,153,235	305,894	3,254,636
– Home mortgages	10,167,723	5,699,369	1,081,517	292,570	3,094,267
– Consumer loans	358,270	208,664	34,722	8,025	106,859
– Other	223,582	127,777	36,996	5,299	53,510
TOTAL	19,347,498	7,991,631	1,428,710	1,382,239	8,544,918

2015

Business in Spain	Total (Carrying amount) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque region	Navarra	Madrid	Other
Central Banks and credit institutions	1,071,475	11,327	-	1,004,143	56,005
Public administrations	4,477,285	314,191	98,319	121,343	3,943,432
– Central administration	3,938,473	-	-	-	3,938,473
– Other public administrations	538,812	314,191	98,319	121,343	4,959
Other financial corporates and individual entrepreneurs	313,230	175,989	127	123,792	13,322
Other 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	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	19,386,613	8,561,149	1,744,449	1,780,867	7,390,354

(a) The definition of exposures includes loans and receivables, debt securities, equity instruments, derivatives held for trading, hedging derivatives, investments in dependent, joint ventures and associates and guarantees given, no matter under which balance sheet heading are recorded.

The following notes provide details of credit risk concentration at the Group by transaction type, sector of activity, geographic exposure, currency, credit quality, etc.

(Expressed in €' 000)

22. Cash, cash balances at central Banks and other demand deposits

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Cash	78,876	88,463
Cash balances at central banks	327,385	94,714
Other demand deposits	46,769	26,678
	453,030	209,855
By currency:		
In euro	444,378	208,288
In dollars	5,821	1,037
In Swiss francs	60	147
In pounds sterling	1,509	283
In Japanese yen	45	11
Other	1,217	89
	453,030	209,855

The average rate of interest per annum in 2016 and 2015 on cash balances at central banks and other deposits amounted to 0.28% and 0.60%, respectively.

Under EC Regulation 1745/2003 of the European Central Bank, credit institutions in EU Member States were required to comply with a minimum reserve ratio of 1% at 31 December 2016 and 2015, respectively, calculated on the basis of their qualifying liabilities as determined in said Regulation. At 31 December 2016 and 2015, Laboral Kutxa has complied with the minimum levels of this ratio required by the legislation in force.

23. Financial assets and liabilities held for trading

Set out below is a breakdown of these headings in the consolidated balance sheet at 31 December 2016 and 2015:

	Assets		Liabilities	
	2016	2015	2016	2015
Derivatives	3,668	3,047	2,297	3,430
Equity instruments	620	776	-	-
Debt securities	179,401	255,143	-	-
	183,689	258,966	2,297	3,430

During 2016, financial assets held for trading has fallen by around €75 million due mainly to sales of Government Debt and Treasury Bills issued by the Government and other Public Administrations. During 2015 financial assets held for trading fell by around €30 million due mainly to sales of Government Debt and Treasury Bills, as well as other fixed income securities.

(Expressed in €' 000)

The fair value of the items included in financial assets and liabilities held for trading at 31 December 2016 and 2015, as well as the measurement techniques applied, are set out in Note 42.

The effect on the consolidated income statements for the years ended 31 December 2016 and 2015 of changes in the fair value of items included in Financial assets and liabilities held for trading is as follows (Note 52):

	Gains		Losses	
	2016	2015	2016	2015
Derivatives	12,385	36,409	14,513	32,320
Equity instruments	28,382	18,504	25,540	21,989
Debt securities	74,170	21,188	73,048	21,053
	114,937	76,101	113,101	75,362

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2016 and 2015 resulting from changes in fair value of the financial assets and liabilities held for trading is as follows:

	Gains		Losses	
	2016	2015	2016	2015
Items whose fair value is:				
Calculated taking as a reference quotes (Level 1)	94,197	33,908	96,465	42,685
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	20,740	42,193	16,636	32,677
Data not supplied by the market (Level 3)	-	-	-	-
	114,937	76,101	113,101	75,362

The breakdown by currency and maturity of the financial assets and liabilities held for trading headings of the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
By currency:				
In euro	183,689	258,966	2,297	3,430
	183,689	258,966	2,297	3,430
By maturity:				
Up to 1 month	812	805	163	121
Between 1 month and 3 months	494	332	457	178
Between 3 months and 1 year	845	836	713	1,464
Between 1 and 5 years	51,168	111,552	439	975
Over 5 years	129,750	144,665	525	692
No set maturity	620	776	-	-
	183,689	258,966	2,297	3,430

(Expressed in €' 000)

a) Credit risk

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
By geographical sector:				
Spain	183,319	99.80%	258,075	99.66%
Other European Union countries	370	0.20%	891	0.34%
Rest of the world	-	-	-	-
	183,689	100.00%	258,966	100.00%
By counter-party categories:				
Credit institutions	1,931	1.05%	30,089	11.62%
Resident Public Administrations	179,401	97.67%	226,707	87.54%
Other resident sectors	2,357	1.28%	2,014	0.78%
Other non-resident sectors	-	-	156	0.06%
	183,689	100.00%	258,966	100.00%
By instrument types:				
Listed bonds and debentures	179,401	97.66%	255,143	98.52%
Other fixed – income securities	-	-	-	-
Derivatives not traded on organised Markets	3,668	1.99%	3,047	1.18%
Listed shares	620	0.35%	776	0.30%
	183,689	100.00%	258,966	100.00%

A breakdown of the Financial assets held for trading based on external credit ratings assigned by the main rating agencies is as follows:

	2016		2015	
	Amount	**%**	**Amount**	**%**
Risks rated A	366	0.20%	27,978	10.80%
Risks rated B	180,632	98.34%	228,817	88.36%
Amounts not rated	2,691	1.46%	2,171	0.84%
	183,689	100.00%	258,966	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2016 and 2015 break down as follows:

	2016	**2015**
Spanish government debt securities	161,488	212,473
Credit Official Institute	-	28,436
Other fixed income securities	17,913	14,234
	179,401	255,143

Average annual rates of interest on banking debt securities in 2016 and 2015 were 0.796% and 1.046% respectively.

(Expressed in €' 000)

c) Equity instruments

Set out below is a breakdown of Equity instruments on the assets side of the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Equity investments in Spanish entities	-	-
Equity investments in foreign entities	-	156
Shares in investment funds	620	620
Other shareholdings	-	-
	620	776

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.

d) Derivatives held for trading

Derivatives held for trading under financial assets and liabilities held for trading headings on the consolidated balance sheets at 31 December 2016 and 2015 break down as follows:

	2016		
	Notional value	Fair value	
		Assets	Liabilities
Un-matured currency purchases-sales			
Purchases	51,717	1,203	100
Sales	86,972	778	1,058
Financial and interest rate forwards			
Purchased	-	-	-
Sold	21,391	-	-
Securities options			
Purchased	26,380	501	-
Sold	1,456,583	-	175
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	3,045	4	-
Sold	3,045	-	4
Other interest rate operations			
FRAs	-	-	-
Rate swaps	14,473	128	216
Call Money Swap (CMS)	-	-	-
Other	-	1,054	744
		3,668	2,297

(Expressed in €' 000)

	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

The notional and/or contractual amount of contracts corresponding to Derivatives held for trading does not imply a quantification of the risk assumed by the Group since its net position is obtained from the offsetting and/or combination of these instruments.

24. Assets and liabilities designated at fair value through profit or loss

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	Assets		Liabilities	
	2016	2015	2016	2015
Debt securities	-	-	-	-
Equity instruments	403	558	-	-
	403	558	-	-

The fair value of the items included in this category at 31 December 2016 and 2015, as well as the measurement techniques applied, are set out in Note 42.

(Expressed in €' 000)

The effect on the consolidated income statement for the years ended 31 December 2016 and 2015 resulting from changes in the fair value of the items recorded as assets and liabilities at fair value through changes in profit and loss, is as follows (Note 53):

	Gains		Losses	
	2016	2015	2016	2015
Equity instruments	19	14	8	10
Debt securities	797	4,314	1,090	1,432
	816	4,328	1,098	1,442

A breakdown based on the criterion for determining fair value of the effect on the consolidated income statement for the years ended 31 December 2016 and 2015, 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	
	2016	2015	2016	2015
Items whose fair value is:				
Calculated taking as a reference quotes (Level 1)	816	4,328	1,098	1,442
Estimated through a measurement technique based on:				
Data supplied by the market (Level 2)	-	-	-	-
Data not supplied by the market (Level 3)	-	-	-	-
	816	4,328	1,098	1,442

The breakdown of the headings Financial assets and liabilities designated at fair value through profit and loss in the consolidated balance sheets at 31 December 2016 and 2015, by currency and maturity date, is as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
By currency:				
In euros	403	558	-	-
	403	558	-	-
By maturity:				
Demand deposits	-	-	-	-
Between 3 months and 1 year	-	-	-	-
Between 1 and 5 years	-	-	-	-
Over 5 years	-	-	-	-
No set maturity	403	558	-	-
	403	558	-	-

(Expressed in €' 000)

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:

	2016		2015	
	Amount	**%**	**Amount**	**%**
By geographical sector:				
Spain	403	100.00%	558	100.00%
Other European Union countries	-	-	-	-
Rest of the world	-	-	-	-
	403	100.00%	558	100.00%
By counter-party categories:				
Credit institutions	-	-	-	-
Resident Public Administrations	-	-	-	-
Other resident sectors	403	100.00%	558	100.00%
Other non-resident sectors	-	-	-	-
	403	100.00%	558	100.00%
By instrument types:				
Listed bonds and debentures	-	-	-	-
Other fixed-income securities	-	-	-	-
Participation units in Investment Funds	403	100.00%	558	100.00%
	403	100.00%	558	100.00%

The breakdown of other financial assets at fair value through changes in profit or loss based on external credit ratings assigned by the main rating agencies is as follows:

	2016		2015	
	Amount	**%**	**Amount**	**%**
Risks rated A	-	-	-	-
Risks rated B	-	-	-	-
Amounts not rated	403	100.00%	558	100.00%
	403	100.00%	558	100.00%

b) Debt securities

Debt securities on the asset side of the consolidated balance sheets at 31 December 2016 and 2015 break down as follows:

	2016	**2015**
Spanish public debt	-	-
Other fixed income securities	-	-
	-	-

The average annual yields in 2016 and 2015 on debt securities in the insurance business stood at -0.60% and 4.15%, respectively.

(Expressed in €' 000)

c) Equity instruments

Equity instruments on the asset side of the consolidated balance sheet at 31 December 2016 and 2015 relates to shares in mutual funds managed by the Group.

25. Available-for-sale financial assets

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Equity instruments	318,286	387,420
Holdings in Spanish entities	78,951	116,330
Holdings in foreign entities	63,165	92,020
Participation units in Investment Funds	106,169	108,951
Shares in venture capital companies	66,564	66,682
Assets related to the Development and Education Fund	3,437	3,437
Debt securities	4,730,614	4,228,921
Spanish public debt	4,188,577	3,494,985
Treasury Bills	25,002	317,000
Government bonds and debentures	4,163,575	3,177,985
Other debt securities traded by the book-entry system	-	-
Other Spanish Public Administrations debt	39,941	11,236
Foreign public debt	26,963	13,566
Issued by credit institutions	308,246	474,807
Resident sectors	108,947	243,945
Non-resident sectors	199,299	230,862
Other fixed-income securities	166,403	236,734
Issued by other resident sectors	22,956	67,148
Issued by other non-resident sectors	143,447	169,586
Doubtful assets	10,190	37,865
Value adjustments for asset impairment	(9,706)	(40,272)
Microhedge transactions	-	-
	5,048,900	4,616,341

At 31 December 2016 "Equity instruments" include €5,892k (€6,105k at 31 December 2015), 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 2016 and 2015, as well as the measurement techniques applied, are set out in Note 42.

Note 40 provides a breakdown of the balance of the heading Equity – Accumulated other comprehensive income at 31 December 2016 and 2015 owing to changes in the fair value of items included under the heading Available-for-sale financial assets.

(Expressed in €' 000)

The eliminations from the heading Equity Accumulated other comprehensive income in the years ended 31 December 2016 and 2015 recognized in the consolidated income statement totalled €8,436k and €9,029k, respectively, both net of the tax effect.

During 2016, Parent Company has made significant purchases of debt issued by the Government and other Public Administrations, which has increased the exposure to this type of instruments by approximately €733 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 2016 and 2015 is provided in the table below:

	2016	2015
By currency:		
Euro	4,999,999	4,561,844
US dollars	42,340	41,943
Pounds sterling	5,478	10,038
Swiss francs	1,083	2,516
Other	-	-
	5,048,900	4,616,341
By maturity:		
Up to 1 month	183,879	218,264
Between 1 month and 3 months	52,453	315,395
Between 3 months and 1 year	272,239	975,729
Between 1 year and 5 years	3,348,125	2,323,228
Over 5 years	881,892	436,577
No set maturity	320,018	387,420
Value adjustments for asset impairment	(9,706)	(40,272)
	5,048,900	4,616,341

The reconciliation of the opening and closing balances of available-for-sale financial assets for 2016 and 201 are as follows:

	2016	2015
Balance at beginning of the year	4,616,341	6,391,699
Net additions/decreases	428,905	(1,707,685)
Changes in fair value	6,487	(30,544)
Net impairment losses recognised in profit or loss (Note 63)	(2,833)	(37,129)
Other	-	-
Balance at the end of the year	5,048,900	4,616,341

(Expressed in €' 000)

The average annual interest rate in 2016 and 2015 on debt securities in the banking business was 0.841% and 1.707%, respectively. The average annual yield in 2016 and 2015 on debt securities in the insurance business was 3.00% and 3.54%, respectively.

At 31 December 2016, the item "Debt securities – Issued by credit institutions Non-resident sectors" includes five issues for a total amount of €169 million (five issues totalling €192 million at 31 December 2015), 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 2016 also contains other subordinated debt instruments totalling €492 thousand (€4,755 thousand at 31 December 2015). In 2015 such securities amounting to €6,097 thousand had been transferred to Doubtful assets.

At 31 December 2016 and 2015, 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 2016.

a) Credit risk

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

	2016		2015	
	Amount	%	Amount	%
Spain	4,363,078	92.04%	3,839,179	89.93%
Other European Union countries	357,525	7.54%	415,318	9.73%
Rest of Europe	-	-	311	-
Rest of the world	19,717	0.42%	14,385	0.34%
	4,740,320	100.00%	4,269,193	100.00%
Value adjustments for asset impairment	(9,706)		(40,272)	
	4,730,614		4,228,921	

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

	2016		2015	
	Amount	%	Amount	%
Risks rated A	112,796	2.38%	210,761	4.98%
Risks rated B	4,476,046	94.62%	3,848,942	91.01%
Risks rated C	24	-	-	-
Unrated doubtful assets	10,190	0.22%	37,865	0.90%
Amounts not rated	131,558	2.78%	131,353	3.11%
	4,730,614	100.00%	4,228,921	100.00%

(Expressed in €' 000)

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.

b) Asset impairment losses

The breakdown of the balance under the heading " Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss – Available-for-sale assets " in the consolidated income statement for the years ended 31 December 2016 and 2015 is set out below (Note 63):

	2016	**2015**
Debt securities	(1,724)	28,843
Equity instruments	4,557	8,286
	2,833	37,129
Appropriations charged to income		
Determined collectively	5,108	38,367
Determined individually	(2,248)	(1,091)
Appropriations recovered taken to income	(27)	(147)
	2,833	37,129

Movements during 2016 and 2015 in value adjustments for asset impairment in the item Available-for-sale assets – Debt securities are set out below:

	2016	**2015**
Opening balance	40,272	17,878
Net appropriations/(Recoveries) charged/(credited) to the income statement	(1,724)	28,843
Additions due to business combinations	(16,000)	(6,449)
Application of constituted funds	(12,842)	-
	9,706	40,272

During 2016, impairment losses were applied in the amount of €12,842 thousand, as a result of capital reduction of SAREB, S.A.

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 2016 and 2015:

	2016	**2015**
By manner of determination:		
Determined individually	9,423	37,741
Determined collectively	283	2,531
	9,706	40,272

(Expressed in €' 000)

26. Loans and receivables

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Debt securities	49,281	51,535
Loans and advances	13,894,167	13,898,307
Credit institutions	392,590	169,810
Customers	13,501,577	13,728,497
	13,943,448	13,949,842

The breakdown by currency and maturity of Loans and receivables heading in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	2016	2015
By currency:		
In Euro	14,369,162	14,538,249
In US dollars	14,249	17,936
In pounds sterling	47	1,484
In Japanese yen	1,920	2,587
In Swiss francs	67	400
Other	-	826
Measurement adjustments	(441,997)	(611,640)
	13,943,448	13,949,842
By maturity:		
Demand deposits	265,873	145,959
Up to 1 month	324,818	360,066
Between 1 month and 3 months	117,494	116,464
Between 3 months and 1 year	430,887	306,534
Between 1 and 5 years	1,238,107	1,183,306
Over 5 years	11,796,863	12,132,282
No set maturity	211,403	316,871
Measurement adjustments	(441,997)	(611,640)
	13,943,448	13,949,842

Average annual interest rates on loans and advances to credit institutions for 2016 and 2015 were 1.84% and 5.04% respectively.

Concerning the breakdown of loans and advances - Customers 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 2016 and 2015 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 receivables based on their credit quality at 31 December 2016 and 2015:

	2016		
	Gross amount	**Value adjustments for impairment**	**Carrying amount**
Standard risk	13,599,560	79,583	13,519,977
Of which: on special monitoring	*323,597*	*53,579*	*270,018*
Doubtful risk	789,263	365,792	423,471
TOTAL	**14,388,823**	**445,375**	**13,943,448**

	2015		
	Gross amount	**Value adjustments for impairment**	**Carrying amount**
Standard risk	13,404,822	87,959	13,316,863
Of which: on special monitoring	525,662	2,710	522,952
Substandard risk	124,673	20,709	103,964
Doubtful risk	1,035,116	506,101	529,015
TOTAL	**14,564,611**	**614,769**	**13,949,842**

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 loans and advances - Customers, not taking into account measurement adjustments:

2016	**2015**	**2014**
5.71%	7.21%	8.23%

(Expressed in €' 000)

a) Customers

The breakdown, into various headings, of Customer in the heading of Loans and advances at 31 December 2016 and 2015, is as follows:

	2016	2015
By type and situation:		
Spanish Public Administrations	323,203	335,462
Commercial loans	296,319	250,150
Loans secured by mortgage guarantee	9,540,717	10,548,244
Loans secured by other real property guarantees	46,024	45,540
Other term loans	2,584,613	1,755,727
Finance leases	186,194	170,062
Demand loans and other	117,480	118,740
Repurchase agreements with counterparty entities	-	41,289
Doubtful assets	789,263	1,035,116
Other financial assets	60,469	41,360
Measurement adjustments	(442,705)	(613,193)
Interest accrued	10,745	11,475
Value adjustments for asset impairment	(445,375)	(614,769)
Fees	(8,075)	(9,899)
	13,501,577	13,728,497
By sector of activity of borrower:		
Spanish Public Administrations	330,924	343,284
Other resident sectors:	13,087,196	13,271,072
Agriculture, farming, hunting, forestry and fisheries	60,791	58,530
Industries	694,787	659,055
Construction	368,462	493,550
Services	1,393,387	1,467,281
Commerce and hotel and catering	637,678	734,391
Transport and communications	192,315	183,336
Other services	563,394	549,554
Loans to individuals:	10,766,826	10,994,007
Home loans	9,884,721	10,089,957
Consumer and other	882,105	904,050
Not classified	245,648	211,847
Measurement adjustments	(442,705)	(613,198)
Other non-resident sectors	27,715	25,200
Other financial assets	55,504	47,603
By sector of activity of borrower	238	41,338
	13,501,577	13,728,497
By geographical area:		
- Bizkaia	3,715,289	3,836,961
- Gipuzkoa	3,394,122	3,393,829
- Araba	1,520,514	1,583,439
- Navarra	1,590,159	1,675,944
- Expansion network	3,724,198	3,810,228
- Unclassified	-	-
- Others	-	41,289
Measurement adjustments	(442,705)	(613,193)
	13,501,577	13,728,497
Owing to interest rate applied		
Fixed interest rate	1,256,537	993,014
Variable interest rate linked to Euribor	12,106,189	12,697,832
Variable interest rate linked to CECA	-	-
Variable interest rate linked to IRHH	278,579	315,572
Other	302,977	335,272
Measurement adjustments	(442,705)	(613,193)
	13,501,577	13,728,497

(Expressed in €' 000)

The breakdown by currency and maturity of Customer loans in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	2016	2015
By currency:		
In Euro	13,928,327	14,329,867
In US dollars	13,937	11,143
In pounds sterling	31	286
In Japanese yen	1,920	311
In Swiss francs	67	74
Others	-	9
Measurement adjustments	(442,705)	(613,193)
	13,501,577	13,728,497
By maturity:		
On demand	15,218	17,845
Up to 1 month	324,818	360,066
Between 1 month and 3 months	117,494	116,205
Between 3 months and 1 year	330,887	306,534
Between 1 and 5 years	1,157,934	1,108,115
Over 5 years	11,786,528	12,116,054
No set maturity	211,403	316,871
Measurement adjustments	(442,705)	(613,193)
	13,501,577	13,728,497

At 31 December 2015, the Group recorded under the heading Loans and advances - Customers subordinated loans amounting to €7,528 thousand. At 31 December 2016, the Group has not recorded subordinated loans, under said heading.

At 31 December 2016 and 2015 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 2016 and 2015 the investment outstanding and residual values by type of asset financed are as follows:

Principal	**2016**	**2015**
Capital goods	36,205	30,215
Computer hardware	1,035	1,017
Materials and transport vehicles	51,754	40,564
Cars	21,483	18,491
Other assets	9,310	11,650
Total moveable property	119,787	101,937
Real property	52,566	62,224
TOTAL	172,353	164,161

(Expressed in €' 000)

Residual value	2016	2015
Capital goods	1,267	1,165
Computer hardware	37	49
Materials and transport vehicles	5,135	3,577
Cars	11,508	11,082
Other assets	487	521
Total moveable property	18,434	16,394
Real state property	5,935	6,165
TOTAL	24,369	22,559

Of these balances, a total amount of €10,528k and €16,658k related to impaired assets included in the item Doubtful assets at 31 December 2016 and 2015, respectively.

A breakdown of securitisation and other asset transfers by the Parent Entity at 31 December 2016 and 2015 is as follows:

	2016	2015
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:	667,899	900,673
Mortgage assets securitised through mortgage transfer certificates	667,899	858,676
Other securitised assets	-	41,997
	667,899	900,673

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. Likewise, in 2016, the securitisation fund "I.M. Caja Laboral Empresas 1, FTA" issued in 2011 has been settled in advance, with the express consent and acceptance of both the Parent Company as the holder of all the Bonds and the counterparties with contracts in the fund, in accordance with the Fund Registration Document. 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 previously said funds has been recognized.

The outstanding balance of these assets at 31 December 2016 stood at €667,899k (€900,673k at year-end 2015). 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 latter settled in advance in 2016. The Entity intends to use these assets as collateral to secure Eurosystem credit transactions.

(Expressed in €' 000)

In addition, at 31 December 2016, the Parent Entity has extended the abovementioned asset securitisation funds subordinated loans in the amount of €27,979k (€53,846k at 31 December 2015).

b) Asset impairment losses

The breakdown of Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss – Loans and receivables in the consolidated income statement for the years ended 31 December 2016 and 2015 (Note 63) is as follows:

	2016	2015
Loans	(35,194)	2,380
Appropriations	126,270	147,493
Doubtful loans recovered	(3,814)	(4,513)
Other loans recovered	(157,650)	(140,600)
	(35,194)	2,380
Appropriations charged to income	126,270	147,493
Determined individually	59,778	147,430
Determined collectively	66,492	63
Appropriations recovered taken to income	(157,650)	(140,600)
Suspense account items recovered	(3,814)	(4,513)
	(35,194)	2,380

The breakdown at 31 December 2016 and 2015 of the balance of Value Adjustments in respect of asset impairment under Credits, loans and discounts, is as follows:

	2016	2015
By type of cover:		
Specific cover	365,792	526,810
Generic cover	79,583	87,959
	445,375	614,769
By manner of determination:		
Determined individually	170,093	526,810
Determined collectively	275,282	87,959
	445,375	614,769
By counter-party:		
Other resident sectors	445,226	614,501
Other non-resident sectors	149	268
	445,375	614,769

(Expressed in €' 000)

The specific hedge balance at 31 December 2015, included €20,709k intended to adjust the value of certain customer credit transactions totalling €120,420k. This hedge was 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. The generic hedge at 31 December 2016 includes €53,579 thousand to adjust the value of operations classified as standard risk on special monitoring for the amount of €323,597 thousand.

Movements during 2016 and 2015 of the balance of Measurement Adjustments in respect of asset impairment under Loans and receivables, is as follows:

	Specific cover	Generic cover	Total
Balance at beginning of 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 loans against funds set up	(108,431)	-	(108,431)
Transfer between value adjustments	-	-	-
Other	(17,301)	-	(17,301)
Balance at year-end 2015	526,810	87,959	614,769
Net appropriations against income	126,270	-	126,270
Recoveries	(88,048)	(69,602)	(157,650)
Transfer to doubtful assets against funds set up	(117,722)	-	(117,722)
Transfer between value adjustments	(61,267)	61,267	-
Other	(20,251)	(41)	(20,292)
Balance at year-end 2016	365,792	79,583	445,375

During 2016 and 2015 the item "Other" mainly reflects the reclassification of the specific provision on the funding extended to Grupo Fomenclar to "Non-current assets and disposal groups classified as held for sale" in the amount of €20,106k and €17,467k, respectively (Note 35).

The amount of cumulative financial income not recognised in the consolidated income statement relating to impaired financial assets totals €97,659k and €124,109k, at 31 December 2016 and 2015, respectively, Set out below is a breakdown of the carrying value of impaired assets, without deduction of value adjustments for impairment:

(Expressed in €' 000)

	2016	2015
By geographical area:		
- Bizkaia	212,852	262,800
- Gipuzkoa	161,878	249,231
- Araba	65,847	86,608
- Navarra	103,421	147,228
- Expansion network	245,265	283,529
- Not classified	-	5,720
	789,263	1,035,116
By counter-party:		
- Spanish Public Administrations	7,372	7,600
- Other resident sectors	781,695	1,027,280
- Other non-resident sectors	196	236
	789,263	1,035,116
By type of instrument:		
- Commercial loans	10,378	51,389
- Loans and credits	746,458	931,994
- Finance leases	15,176	24,908
- Remainder	17,251	26,825
	789,263	1,035,116

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

	2016	2015
Up to 6 months	265,387	511,451
Over 6 months without exceeding 9 months	42,531	52,764
Over 9 months without exceeding 12 months	35,076	40,634
Over 12 months without exceeding 15 months	20,760	26,017
Over 15 months without exceeding 18 months	19,367	18,158
Over 18 months without exceeding 21 months	12,503	28,772
Over 21 months	393,639	357,320
	789,263	1,035,116

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

	2016	2015
Up to 1 month	1,670	15,638
Between 1 month and 2 months	6,262	5,040
Between 2 months and 3 months	1,394	1,057
	9,326	21,735

Overdue and unimpaired financial assets with amounts due between 30 and 90 days, represent a risk disposed at 31 December 2016 of €132,024, of which €131,281 thousand are classified as standard exposures under special monitoring.

(Expressed in €' 000)

A breakdown is provided below at 31 December 2016 and 2015 of balances under loans and receivables written off the consolidated Group balance sheet based on the view that the possibilities of their recovery are remote:

	2016	2015
Loans and advances – Customers	460,167	377,051
	460,167	377,051

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

	2016	2015
Balance at the beginning of the year	377,051	311,372
Additions:	133,722	114,880
Value adjustment for asset impairment	133,722	114,880
Recoveries:	(3,814)	(4,539)
Due to collection in cash of principal	(3,814)	(4,539)
Definitive write-offs:	(46,792)	(44,662)
Condoned	(46,792)	(44,662)
Balance at the end of the year	460,167	377,051

At 31 December 2016 and 2015, write-offs due to remissions amounted to €46,792 thousand and €44,662 thousand, respectively.

27. Held-to-maturity investments

Set out below is a breakdown of this heading in the balance sheets at 31 December 2016 and 2015:

	2016	2015
Spanish public debt	370,505	413,697
Treasury Bills	-	-
Other book-entry debt instruments	370,505	413,697
Other Spanish Public Administrations debt	-	-
Foreign public debt	6,389	9,209
French public debt	1,033	3,817
German public debt	4,562	4,583
Dutch public debt	794	809
Bonds and debentures	7,500	668,279
Issued by credit institutions	7,500	668,279
Residents	912	653,162
Non-residents	6,588	15,117
Issued by Other sectors	-	-
Residents	-	-
Non-residents	-	-
Measurement adjustments for asset impairment	-	-
Microhedge transactions	55,139	51,529
	439,533	1,142,714

(Expressed in €' 000)

The breakdown by currency, maturity date in the listed price of the Held-to-maturity investments in the balance sheets at 31 December 2016 and 2015, without taking into consideration Measurement adjustments for asset impairment, is as follows:

	2016	2015
By currency:		
In Euro	439,533	1,142,714
	439,533	1,142,714
By maturity:		
Up to 1 year	18,822	17,011
Between 1 and 5 years	10,381	732,685
Over than 5 years	355,191	341,489
Measurement adjustments	55,139	51,529
	439,533	1,142,714
By ratings:		
Risks classified as Rating A	12,977	66,820
Risks classified as Rating B	426,556	1,075,894
Amounts not assigned	-	-
	439,533	1,142,714

Movements in 2016 and 2015 in the Held-to-maturity investments are set out below:

	2016	2015
Balance at beginning of the year	1,142,714	1,719,014
Additions due to purchases	15,994	1,316
Amortizations	(733,226)	(557,355)
Microhedge transactions	3,610	(7,313)
Collected interests	(13,867)	(60,873)
Apportionment of interest	24,308	47,925
Impairment losses (Note 63)	-	-
Balance at the end of the year	439,533	1,142,714

The average interest rate during 2016 and 2015 for held-to-maturity investments in the banking business was 2.785% and 4.243%, respectively. Average annual yields in 2016 and 2015 in held-to-maturity investments in the insurance business stood at 4.08% and 3.93%, 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 Held-to-maturity investments at 31 December 2016 and 2015, as well as the measurements techniques applied, are set out in Note 42.

During 2016, €688 million was amortised upon maturity, of which €608 million corresponded to the amortization of bonds issued by the Official Credit Institute (ICO).

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 2016 and 2015, 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 2016 and 2015, amount (€55,139k) and (€51,529k), respectively.

28. Asset and liability Derivatives – Hedge accounting

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2016 and 2015:

	Assets		Liabilities	
	2016	2015	2016	2015
Micro-hedges:	186,213	232,753	178,447	114,798
Fair value hedges	186,213	232,583	178,447	114,798
Cash flow hedges	-	170	-	-
	186,213	232,753	178,447	114,798

The breakdown by currency and maturity of asset and liability derivatives – hedge accounting in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
By currency:				
In Euro	186,213	232,753	178,447	114,798
	186,213	232,753	178,447	114,798
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	-	12,837	-	-
Between 3 months and 1 year	20	12,712	20	-
Between 1 and 5 years	185,940	93,498	27,126	12,427
Over 5 years	253	113,706	151,301	102,371
	186,213	232,753	178,447	114,798

(Expressed in €' 000)

The balance of hedging derivatives – hedge accounting on the asset and liability sides of the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	2016		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate operations			
Financial swaps	3,074,971	186,213	178,447
Other share operations			
Financial swaps	-	-	-
		186,213	178,447

	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

The notional and/ or contractual amount of asset and liability derivatives – hedge accounting does not represent the risk assumed by the Group since its net position is obtained from the offset and / or combination of such instruments

At 31 December 2016 and 2015, 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 €1,125,000k and €1,725,000k, respectively (Note 36) and certain debt instruments, mainly Government Bonds, with a nominal value of €1,075,000k and €425,000k, 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.

(Expressed in €' 000)

29. Investments in joint ventures and associates

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Jointly-controlled entities:		
Net value	-	-
Cost	-	-
Value adjustments for asset impairment	-	-
Associates:		
Net value	3,042	3,091
Cost	3,042	3,091
Value adjustments for asset impairment	-	-
	3,042	3,091

Movements in 2016 and 2015 in the balance of Investments in joint ventures and associates are as follows:

	2016	2015
Balance at start of the year	3,091	3,284
Acquisitions	-	-
Disposals due to sale	-	-
Disposals due to capital redemption	(103)	(216)
Profit sharing (Note 48)	51	83
Provision for impairment (Note 64)	-	(23)
Share of valuation gains/(losses)	-	-
Dividend payment	-	(37)
Other	3	-
Balance at year end	3,042	3,091

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 2016 and 2015.

30. Assets under insurance or reinsurance contracts

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Technical provision for unconsumed premiums	11,721	11,468
Life insurance technical reserves	967	1,263
Technical reserves for claims	13,113	12,467
Credits for reinsurance operations	771	-
	26,572	25,198

(Expressed in €' 000)

31. Tangible assets

Set out below is a breakdown of these heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Property, plant and equipment	298,658	317,842
For own use:	286,927	306,625
Data processing equipment and installations	7,893	8,425
Furnishings, vehicles and other installations	30,213	30,245
Buildings	288,974	307,497
Work in progress	1,244	1,217
Other	3	9
Impairment losses	(41,400)	(40,768)
Leased out under operating leases	10,971	10,426
Associated with Community Projects	760	791
Furniture and installations	3	3
Buildings	757	788
Investment property	55,889	61,829
Buildings	66,086	72,315
Rural properties, land and plots	1,349	1,349
Impairment adjustments	(11,546)	(11,835)
	354,547	379,671

(Expressed in €' 000)

The movement in 2016 and 2015 in the balance Tangible assets is as follows:

	For own use	Leased out under operating leases	Associated with Community Projects	Investment properties	Total
Gross					
Balance at 1 January 2015	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
Additions	13,230	6,539	-	827	20,596
Disposals	(12,487)	(5,102)	-	(14,098)	(31,687)
Transfers	(2,195)	-	-	2,195	-
Transfers to non-current assets for sale	(17,418)	-	-	1,797	(15,621)
Balance at 31 December 2016	563,345	19,608	2,135	82,591	667,679
Accumulated amortization					
Balance at 1 January 2015	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
Charges	14,697	3,956	31	1,004	19,688
Disposals	(9,805)	(3,064)	-	(4,915)	(17,784)
Transfers	(388)	-	-	388	-
Transfers to non-current assets for sale	(4,331)	-	-	489	(3,842)
Others	23	-	-	(16)	7
Balance at 31 December 2016	235,018	8,637	1,375	15,156	260,186
Value adjustments owing to asset impairment					
Balance at 1 January 2015	**(30,883)**	-	-	**(1,427)**	**(32,310)**
Additions (Note 65)	(9,800)	-	-	(10,200)	(20,000)
Decreases	-	-	-	-	-
Transfers	-	-	-	-	-
Others	(85)	-	-	(208)	(293)
Balance at 31 December 2015	**(40,768)**	-	-	**(11,835)**	**(52,603)**
Additions (Note 65)	(527)	-	-	(2,153)	(2,680)
Decreases	-	-	-	2,338	2,338
Transfers	(104)	-	-	104	-
Others	(1)	-	-	-	(1)
Balance at 31 December 2016	**(41,400)**	-	-	**(11,546)**	**(52,946)**
Net					
Balance at 31 December 2015	**306,625**	**10,426**	**791**	**61,829**	**379,671**
Balance at 31 December 2016	**286,927**	**10,971**	**760**	**55,889**	**354,547**

(Expressed in €' 000)

During 2016 tangible assets with a gross carrying value of €11,638 thousand have been derecognised (€61,092 thousand in 2015 which mainly related to refurbishment work by the Parent Entity on its head office for €58,157 thousand) and investment properties with a gross carrying value of €9,182 thousand (€1,211 thousand in 2015) mainly related to the sale of 35 offices, which generated €427 thousand losses.

During 2016 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 €3,219 thousand (€8,129 thousand in 2015) relating to 5 offices (26 offices in 2015) that have been leased to third parties during said year.

During 2016 transfers have been made from Property, plant and equipment for own use to Non-current assets held for sale for a carrying value of €13,087 thousand (€1,331 thousand in 2015) relating to 35 offices that have been closed.

The heading Property, plant and equipment for own use on the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
At 31 December 2016				
Data processing equipment and installations	57,575	(49,682)	-	7,893
Furnishings, vehicles and other installations	162,067	(131,854)	-	30,213
Buildings	341,567	(52,593)	(41,400)	247,574
Work in progress	1,244	-	-	1,244
Other	892	(889)	-	3
	563,345	(235,018)	(41,400)	286,927
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

The fair value of Property, plant and equipment for own use and under construction is included in Note 42 to the annual accounts.

The net balance at 31 December 2016 and 2015 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 2016 and 2015 amounts to approximately €146,340k and €142,794k, respectively.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in €' 000)

The balance of Investment properties in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	Gross	Accumulated amortization	Impairment adjustments	Net
At 31 December 2016				
Buildings	81,242	(15,156)	(11,546)	54,540
Rural properties, land and plots	1,349	-	-	1,349
	82,591	(15,156)	(11,546)	55,889
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

The fair value of Investment properties is indicated in Note 42 to the annual accounts.

Net operating income from the Group's Investment properties during 2016 and 2015 amounted to approximately €2,626k and €2,582k, 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 Leased out under operating leases in the consolidated balance sheets at 31 December 2016 and 2015:

	Gross	Accumulated amortization	Net
At 31 December 2016			
Machinery	4,572	(2,080)	2,492
Furnishings and fixtures	328	(59)	269
Buildings	-	-	-
Computer hardware	9,052	(3,991)	5,061
Medical equipment	234	(18)	216
Vehicles	4,759	(2,299)	2,460
Other	663	(190)	473
	19,608	(8,637)	10,971
At 31 December 2015			
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

(Expressed in €' 000)

Income from rent from Assets assigned under operating leases by the Group in 2016 and 2015 amounted to approximately €4,943k and €4,777k, respectively. Operating expenses of all kinds corresponding to Assets assigned under operating leases by the Group in 2016 and 2015 amounted to approximately €458k and €487k, respectively. (Note 56).

At 31 December 2016 and 2015, 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 €6,003 thousand and €6,609 thousand in 2016 and 2015, respectively (Note 60.b). At 31 December 2016 and 2015, the average remaining term of the lease agreements was 14 years.

- The present values of minimum future rental payments to be incurred by the Group during the mandatory term of leases at 31 December 2016 stood at €4,553k for leases with terms of one year (€4,774k in 2015), €13,896k for one to five years (€14,671k in 2015) and €13,148k for more than five years (€15,323k in 2015).

32. Intangible assets

The breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	2016	2015
Goodwill	33,425	33,425
Other intangible assets	143	66
With undefined useful life	143	66
Amortised cost	143	66
Value adjustments for asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	33,568	33,491

The breakdown of the balance in Goodwill in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	2016	2015
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 2016 and 2015 was as follows:

	2016	2015
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 "Impairment or (-) reversal of impairment on non-financial assets - Goodwill" in the consolidated income statement during the years ended at 31 December 2016 and 2015.

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

The Spanish economy will maintain relatively favourable growth trends in 2017 and will continue to stand out in a positive light from other Eurozone countries. The economy has room to continue growing above its potential and domestic demand will continue driving economic growth. GDP will be somewhat less dynamic than in the last two years due to: (i) the smaller positive impact of factors that have been boosting activity (oil, fiscal policies, low interest rates) and (ii) the consequences of uncertainty surrounding the process of the UK's withdrawal from the EU. In terms of the labour market, unemployment rates will continue to decline.

The adjustment of imbalances dating back to before the crisis (finalisation of the adjustments to the real estate sector, external surplus, significant reduction in private sector debts) has laid the foundations from which to move towards a more sustainable economic growth over time. The real estate sector will continue to improve as a result of the improved performance of the labour market and low mortgage interest rates. External surplus will prevail in a situation in which the internationalisation process of Spanish companies will continue. The deleveraging of the private sector will take place following the improved performance of nominal GDP, which will allow lending to stabilise.

The main domestic risk will continue to be the country's politics. The political situation will make it harder to adopt new structural reforms and comply with the fiscal goals set by the European Commission.

Inflation will increase positively, following its negative track record in recent years. This will be possible as the underlying effect linked to oil prices will dissipate and further steps will be taken to continue reducing surplus capacity

Concerning the goodwill resulting from the business combination consisting of the acquisition of assets from Seguros Lagun Aro, S.A., at the close of 2016 and 2015 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 2021, 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 6.59% was applied.

Annualised growth rates used in the forecast period (CAGR) for earned premiums have ranged from 1.0% and 3.4%, and for technical insurance expenses have ranged from 1% to 4.8%.

At 31 December 2016 and 2015, 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 2016 and 2015, generated goodwill is not tax deductible.

(Expressed in €' 000)

33. Tax assets and liabilities

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2016 and 2015:

	Assets		Liabilities	
	2016	2015	2016	2015
Current taxes:	13,330	14,573	3,868	5,228
Corporate income tax	1,113	1,450	3,868	5,228
VAT	9,455	10,030	-	-
Withholdings refundable/payable	2,762	3,093	-	-
Other	-	-	-	-
Deferred taxes:	285,960	301,522	117,495	125,263
Measurement adjustments available- for- sale portfolio	25,621	24,743	78,429	78,986
Fixed asset restatement	-	-	32,058	39,214
Opening fees	141	214	-	-
Tax credits	205,515	223,487	-	-
Reinvestment in fixed assets	-	-	-	-
Provision for pensions and similar obligations	10,032	7,246	-	-
Provision for bad debts and other provisions	41,189	42,505	-	-
Depreciation and amortisation	-	-	-	-
Impairment of shareholdings	-	-	-	-
Revaluation of own financial liabilities mortgage bonds	-	-	5,030	5,030
Deposit Guarantee Fund	-	-	-	-
Other items	3,462	3,327	1,978	2,033
	299,290	316,095	121,363	130,491

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2016 and 2015 between accounting and tax criteria which have been recorded as Deferred tax assets and Deferred tax liabilities upon calculation and recording of the corresponding tax expense related to profit from continuing operations.

(Expressed in €' 000)

Movements in 2016 and 2015 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2016	2015	2016	2015
Balance at 1 January	301,522	307,072	125,263	137,047
Increases / (decreases)	(15,562)	(5,550)	(7,768)	(11,784)
Bad-debt provision and other provisions	(1,316)	6,360	-	-
Fixed-asset reinvestment	-	-	-	-
Measurement adjustments – AFS portfolio	878	3,124	(557)	(9,797)
Fixed-asset revaluation	-	-	(7,156)	-
Opening fees	(73)	(199)	-	-
Tax credits	(17,972)	2,312	-	-
Provision for pensions and similar obligations	2,786	(2,634)	-	-
Deposit Guarantee Fund	-	(14,552)	-	-
Other	135	39	(55)	(1,987)
At 31 December	285,960	301,522	117,495	125,263

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 2016, the Parent Entity recognises deferred tax assets for the above-mentioned items in the amount of €178,024k and €27,491k, respectively (€197,570k and €25,917k, respectively at 31 December 2015), 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 €178 million (€197 million at 31 December 2015). Likewise, as from 2016, in order to said conversion be effective, it will be associated with a 1.5% financial contribution on the amount of those assets (Note 57).

Note 41 outlines the Group's tax matters in further detail.

(Expressed in €' 000)

34. Other assets and liabilities

Set out below is a breakdown of these headings in the consolidated balance sheets at 31 December 2016 and 2015:

	Assets		Liabilities	
	2016	2015	2016	2015
Inventories	19,476	3,441	-	-
Time-apportionment of accrued fees	21,507	24,313	-	-
Other accrual items	21,163	32,747	52,922	58,575
Transactions in progress	463	349	1,332	65
Commercial creditors and other accounts payable	-	-	4,614	13,182
Community projects fund	-	-	12,030	11,765
Other items	335	785	1,604	6,342
	62,944	61,635	72,502	89,929

As mentioned in Note 10, at 31 December 2016 and 2015 the heading "Other assets – other accrual items" includes €21,138 thousand and €24,660 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 for the extraordinary contribution provided for under Royal Decree-Law 6/2013 amounting to €10,484 thousand, which have been during 2016.

n 2016, the amount of €17,842 thousand was transferred from the heading "Non-current assets and disposal groups of items classified as held for sale" to "Other assets - Inventories", related to foreclosured assets that will be constructed and developed by the Group.

<u>Community projects fund</u>

Set out below is a breakdown of this item included under the heading "Other liabilities in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Development and Education Fund	12,030	11,765
Appropriation:	11,651	11,386
Applied to Property, plant and equipment	381	411
Applied to other investments - Available-for-sale financial assets (Note 25)	3,437	3,437
Expenses committed during the year	7,538	7,172
Current year maintenance expenses	(7,538)	(7,172)
Amount not committed	7,833	7,538
Revaluation reserves	379	379
	12,030	11,765

(Expressed in €' 000)

Movements during 2016 and 2015 in the balance of the Community Projects Fund are as follows:

	2016	2015
Balance at beginning of the year	11,765	11,430
Mandatory provision charged against the surplus for the year	7,833	7,538
Appropriation against the surplus for the year	(7,538)	(7,172)
Fixed asset depreciation (Note 31)	(31)	(30)
Other	1	(1)
Balance at the end of the year	12,030	11,765

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 2015 and 2014 amounted to €7,538 thousand and €7,172 thousand, respectively. In 2016 €4,644 thousand and €482 thousand (€4,767 thousand and €110 thousand in 2015) was allocated to financing corporate institutions of the Mondragón Group and the Inter-cooperative Education and Promotion Fund, respectively.

35. Non-current assets and disposal groups classified as held for sale

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Tangible assets	278,987	354,765
Property, plant and equipment for own use	25,508	15,945
Investment properties	12,845	11,923
Tangible assets foreclosed	808,381	892,935
Measurement adjustments for asset impairment	(567,747)	(566,038)
	278,987	354,765

(Expressed in €' 000)

Movements during 2016 and 2015 under in Non-current assets and disposal groups classified as held for sale are as follows:

	2016	2015
Individualised items:		
Balance at the beginning of the year	354,765	338,102
Additions	32,254	68,047
Disposals	(90,227)	(75,205)
Balances due to business combination	-	-
Net impairment charges (Note 67)	(11,742)	24,914
Transfers to tangible assets (Note 31)	11,779	(1,093)
Transfers to write-off assets	-	-
Transfers to inventories (Note 34)	(17,842)	-
Balance at the end of the year	278,987	354,765

The breakdown of impairment losses on Non-current assets and disposal groups classified as held for sale, booked in the consolidated income statements of the years ended 31 December 2016 and 2015 is shown below (Note 67):

	2016	2015
Tangible assets	(11,742)	24,914
Other assets	-	-
	(11,742)	24,914
Appropriations charged to income	(11,742)	24,914
	(11,742)	24,914

The movement in Value Adjustments due to asset impairment under Non-current assets and disposal groups classified as held for sale at 31 December 2016 and 2015 is as follows:

	2016	2015
Balance at beginning of the year	566,038	575,386
Net appropriations against income	(11,742)	(24,914)
Additions due to business combination	-	-
Transfers to loans and receivables (Note 26)	20,106	17,467
Transfers to written off assets and disposals	3,288	(1,901)
Transfers to inventories (Note 34)	(33,427)	-
Others	-	-
	567,747	566,038

(Expressed in €' 000)

The breakdown of Measurement Adjustments for asset impairment under Non-current assets and disposal groups classified as held for sale at 31 December 2016 and 2015 is as follows:

	2016	2015
Individualized items	567,747	566,038
	567,747	566,038

36. Financial liabilities measured at amortized cost

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Deposits from central bank	-	-
Deposits by credit institutions	202,981	262,856
Customer funds	17,894,200	18,282,763
Debt securities issued	174,810	166,333
Other financial liabilities	215,918	160,332
	18,487,909	18,872,284

The breakdown by currency and maturity of financial liabilities measured at amortised cost in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	2016	2015
By currency:		
In Euro	18,463,158	18,845,271
In US dollars	23,583	25,196
In pounds sterling	711	1,108
In Swiss francs	199	198
In Japanese yen	33	202
Other	225	309
	18,487,909	18,872,284
By maturity:		
Demand deposits	12,542,554	11,204,408
Up to 1 month	1,147,439	1,867,756
Between 1 month and 3 months	1,232,954	1,543,054
Between 3 months and 1 year	3,161,928	3,177,863
Between 1 and 5 years	7,460	637,914
Over 5 years	201,025	187,745
No set maturity	-	-
Measurement adjustments	194,549	253,544
	18,487,909	18,872,284

(Expressed in €' 000)

a) Central bank deposits

The balance of Deposits by central banks in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	2016	2015
Bank of Spain	-	-
Measurement adjustments	-	-
	-	-

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 2016, the Parent Entity has no deposits with the European Central Bank.

The average rates of interest per annum on Deposits by Central Bank in 2016 and in 2015 were 0.00 and 0.07%, respectively.

The limits assigned by the Bank of Spain to the Parent Entity at 31 December 2016 within the credit system secured by public funds totalled €653,056k (€1,637,172k at 31 December 2015).

b) Deposits by credit institutions

The balance of Deposits by credit institutions in the consolidated balance sheets at 31 December 2016 and 2015 breaks down as follows:

	2016	2015
Fixed-term deposits	19,427	30,387
Repurchase agreements	-	-
Other accounts	183,453	232,357
Measurement adjustments	101	112
	202,981	262,856

The average rates of interest per annum on Deposits by credit institutions in 2016 and in 2015 were 0.37% and 0.30% respectively.

At 31 December 2016 and 2015, under the heading "Other accounts" the amounts of €183,453k and €232,357k, 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.

(Expressed in €' 000)

c) Customer funds

Set out below is a breakdown of the balance of Customer funds in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Spanish Public Administrations	208,728	168,252
Assets sold under repo agreements with counterparties	102,857	339,231
Other resident sectors:	17,541,489	17,716,568
Demand deposits	11,326,419	9,722,611
Current accounts	3,230,375	2,717,208
Savings deposits	8,069,670	6,984,464
Other	26,374	20,939
Fixed- term deposits:	4,928,523	6,572,932
Time deposits	4,872,535	6,460,318
Other	55,988	112,614
Repurchase agreements	1,092,155	1,167,716
Measurement adjustments	194,392	253,309
Interest accrued	29,535	57,774
Micro-hedging	164,857	195,535
Other non-resident sectors	41,126	58,712
	17,894,200	18,282,763

Average rates of interest per annum during 2016 and 2015 on Customer funds may be broken down by product as follows:

	2016	2015
Demand deposits	0.06%	0.19%
Fixed- term deposits	1.19%	1.85%
Repurchase agreements	0.19%	0.51%

At 31 December 2016 the Parent Entity records creditor balances with cooperatives, other associates and investment funds managed by the Group amounting to €705,121k (€903,939k in 2015).

At 31 December 2016, the balance sheet heading "Fixed-term deposits – Other" records €1,225 million (€1,825 million at 31 December 2015) 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	2016	2015	Maturity date
Cédulas TDA3, Fondo de Titulización de Activos	03.03.04	-	300,000	01.03.16
Cédulas TDA5, Fondo de Titulización de Activos	29.11.04	100,000	100,000	27.11.19
IM Cédulas 5, Fondo de Titulización de Activos	15.06.05	500,000	500,000	15.06.20
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	09.06.16
		1,225,000	1,825,000	

The annual nominal interest rate of the bonds issued at 31 December 2016 ranges between 3.50% and 4.12% (between 3.50% and 4.39% at 31 December 2015). The heading Other resident sectors - valuation adjustments at 31 December 2016 includes €164,857 thousand (€195,535 thousand at 31 December 2015) 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 70 to these annual consolidated financial statements includes the information regarding the special accounting treatment applicable to issuers of covered and mortgage bonds.

(Expressed in €' 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 2016 and 2015:

	2016	2015
By currency:		
In Euro	17,869,450	18,255,750
In US dollars	23,582	25,196
In pounds sterling	711	1,108
In Swiss francs	199	198
In Japanese yen	33	202
Remainder	225	309
	17,894,200	18,282,763
By maturity:		
Demand deposits	12,335,351	10,970,519
Up to 1 month	985,393	1,726,928
Between 1 month and 3 months	1,222,154	1,529,435
Between 3 months and 1 year	3,156,536	3,165,813
Between 1 and 5 years	318	625,600
Over 5 years	-	11,036
	17,699,752	18,029,331
Measurement adjustments	194,448	253,432
	17,894,200	18,282,763

d) Debt securities issued

Set out below is a breakdown of the balance of debt securities issued in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Promissory notes and bills	-	-
Other inconvertible securities	-	-
Mortgage- backed securities	1,024,810	1,716,333
Measurement adjustments	(850,000)	(1,550,000)
Promissory notes and bills	-	-
	174,810	166,333

<u>Mortgage- backed securities</u>

During the year 2006 the Group contributed certain mortgage loans to the Securitisation fund "I.M. Caja Laboral 1, F.T.A.". Likewise, during 2008 and 2011 the Group contributed certain loans to the securitisation funds "I.M. Caja Laboral 2, F.T.A." and "I.M. Caja Laboral Empresas 1, F.T.A." (the latter was settled in advanced during 2016 (Note 26)), respectively for the issue of securitisation bonds, which were totally subscribed by the Group. It is the Group's intention to use these subscribed bonds as guarantee in credit operations with the Eurosystem.

(Expressed in €' 000)

At 31 December 2016 the securitisation bonds issued through the "I.M. Caja Laboral 1, F.T.A." and "I.M. Caja Laboral 2, F.T.A." funds subscribed by third parties amounted to €174,810 thousand (€166,333 thousand at 31 December 2015). These bonds mature in October 2049 and in January 2051, respectively, and bear annual interest at the Euribor plus a mark-up between 0.15% and 0.21% and 0.30% and 1%, respectively.

At 31 December 2014, this heading also included €150 million 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 2016 and 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 2 covered bonds with an individual value of €700 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 2016 and 2015 in Marketable debt securities are set out below:

	2016	2015
Balance at the beginning of the year	166,333	345,534
Issues	-	-
Securities issued by third parties	8,444	-
Amortisation	(700,000)	(178,959)
Own securities of the Group	700,000	-
Valuation adjustments	33	(242)
Balance at the end of the year	174,810	166,333

The breakdown of interest accruing on debts represented by Group securities at 31 December 2016 and 2015 is as follows (note 46):

	2016	2015
Debt securities issued	771	1,247
Promissory notes and bills	-	-
Other convertible securities	-	-
Mortgage securities	771	1,247
	771	1,247

(Expressed in €' 000)

37. Liabilities under insurance or reinsurance contracts

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Life insurance technical reserves:	478,136	458,961
Unearned premium and unexpired risk reserves:	69,424	65,731
Direct insurance	69,424	65,731
Mathematical reserves	408,712	393,230
Direct insurance	408,712	393,230
Technical reserves for life insurance when the investment risk is assumed by policyholders:	355	369
Direct insurance	355	369
Technical reserves for claims:	80,066	73,776
Direct insurance	80,066	73,776
Technical reserves for share in gains and returned premiums:	195	198
Direct insurance	195	198
Deposits received in respect of ceded reinsurance	-	-
	558,752	533,304

38. Provisions

Set out below is a breakdown of this heading in the balance sheets at 31 December 2016 and 2015:

	2016	2015
Pensions and other post-employment defined benefit obligations	35,830	25,879
Other long-term employee benefits	-	-
Pending legal issues and tax litigation	-	-
Commitments and guarantees given	25,411	31,187
Other provisions	147,268	145,590
	208,509	202,656

(Expressed in €' 000)

Movements in Provisions during 2016 and 2015 are set out below:

	Pensions and other post-employment defined benefit obligations	Other long-term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
At 31 December 2015						
Balance at the beginning of the year	35,109	-	162	31,840	117,472	184,583
Additions, including increases in existing provisions	2,481	-	-	26,517	36,968	65,966
(-) Amounts used	(11,711)	-	-	-	(13,439)	(25,150)
(-) Unused amounts reversed during the period	-	-	(162)	(27,295)	(6,253)	(33,710)
Other movements	-	-	-	125	10,842	10,967
Balance at the end of the year	25,879	-	-	31,187	145,590	202,656
At 31 December 2016						
Balance at the beginning of the year	25,879	-	-	31,187	145,590	202,656
Additions, including increases in existing provisions	21,437	-	-	29,305	28,211	78,953
(-) Amounts used	(11,486)	-	-	-	(17,935)	(29,421)
(-) Unused amounts reversed during the period	-	-	-	(34,224)	(19,905)	(54,129)
Other movements	-	-	-	(857)	11,307	10,450
Balance at the end of the year	35,830	-	-	25,411	147,268	208,509

a) Pensions and other post-employment defined benefit obligations

At 31 December 2016 and 2015, 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"), "Plan de dinamización 1958" ("Dynamic Payroll Plan 1958") and "Red Nueva" ("New network"). 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.

(Expressed in €' 000)

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:

	2016	2015
Commitments entered into	35,830	25,879
	35,830	25,879
Hedges		
Internal funds	35,830	25,879
	35,830	25,879

On 31 December 2016 and 2015 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:

	2016	2015
Discount rate	0%	0.25%
Growth in advance gross future consumption	0%	0%
Growth in benefits	0%	0%
Retirement age	2%	2%
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 – 1.6 years – and the reference curve was calculated based on the Euro Denominated Corporate Bonds AA curve at 31 December 2016 (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.

It should be noted that, following the judgment of the Court of Justice of the European Union published on 21 December 2016 on the so-called floors clauses and the entry into force of Royal Decree Law 1/2017 of 20 January, about urgent protecting consumers measures, the Group has increased its provisions for the year 2016 for this purpose by a net amount of €11 million.

(Expressed in €' 000)

39. Own Funds

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Capital	712,957	708,403
Other reserves	766,469	722,703
(Treasury shares)	(1,393)	(1,359)
Profit/(loss) attributable to owners of the parent company	103,473	102,787
(Interim dividends)	(28,644)	(29,741)
	1,552,862	1,502,793

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 2016 and 2015 stood at 4%, respectively.

Movements in 2016 and 2015 in the Parent Entity's capital balance are set out below:

	2016	2015
Balances at the beginning of the year	708,403	695,962
Cooperative returns from the distribution of previous year's surplus	18,845	17,931
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	2,318	2,311
- Members and other	3,490	1,958
Less, liquidation of contributions owing to departures		
- Associate cooperatives	(5,637)	(2,348)
- Members and other	(14,462)	(7,411)
Additions due to business combination	-	-
Transfers to capital classed as financial liabilities	-	-
Balances at the end of the year	712,957	708,403

At 31 December 2016, 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 15.19% (14.95% in 2015).

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 2016 and 2015, the amount subscribed for this first issue was €37,480 thousand and €38,293 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 2016 and 2015, subscriptions for this issue, still open at year-end, were running at €57,095k and €57,766k, respectively. The remuneration on this second equity issue is an annual rate of 6% until 30 December 2014, on which date remuneration aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

Contributions (parts in the Entity) are transferable "inter vivos" only to other members and to parties wishing to acquire such status, in accordance with the terms and conditions contained in the Parent Entity's By-laws, and by succession "mortis causa", if the successor is a member or acquires member status within six months. In the event of departure, the member or his successors are entitled to request the reimbursement of the contributions to share capital, the value of which, following the relevant reduction, where appropriate, by a percentage determined by the Governing Body on the basis of the reason for the forfeiture of member status, will be estimated based on the balance sheet approved by the General Assembly following the definitive departure date. The reimbursement period will be set by the Governing Body and may not exceed five years following the date of departure or one year from the member's death, where appropriate.

Final Provision Six of Royal Decree 1309/2005 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.

(Expressed in €' 000)

At 31 December 2016 and 2015, 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:

	2016			2015		
	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	-
Clarim Alava, S.L. (*)	-	-	-	-	-	-
Clarim Navarra, S.L. (*)	-	-	-	-	-	-
Clarim Valladolid, S.L. (*)	-	-	-	-	-	-
ISGA Inmuebles, S.A. (*)	60,000	1	-	60,000	1	-
Eco Moncayo Azul, S.L. (*)	-	-	-	-	-	-
Promociones Maralema, S.L. (*)	-	-	-	-	-	-
Promociones Iturmendi 2010, S.L. (*)	-	-	-	-	-	-
Residencial Los Doce Amigos, S.L. (*)	-	-	-	-	-	-
Copesa Montecerrao, S.L. (***)	-	-	-	51,000	25	-
Copesa Valdecilla, S.L. (*)	-	-	-	-	-	-
Interpartners Promoción Inmobiliaria Castilla y León, S.L. (*)	-	-	-	-	-	-

(*) 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.

(**) During 2016, ISGA Inmuebles, S.A. has carried out the merger by absorption of Piensos del Norte, S.A.

(***) During 2016, ISGA Inmuebles, S.A. has acquired the shareholding held by Laboral Kutxa in Copesa Montecerrao, S.L. In addition, during 2016, Copesa Montecerrao, S.L. has proceeded to its liquidation.

(Expressed in €' 000)

Other reserves

Set out below is a breakdown of the balance of other reserves in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Reserves or accumulated losses of investments in joint ventures and associates:	93	(114)
Associates	93	10
Jointly-controlled entities	-	(124)
Revaluation reserves:	-	-
Parent company	-	-
Other:	766,376	722,817
Reserves (losses) attributed to Parent Entity	840,292	793,631
Reserves (losses) attributed to Subsidiaries	(73,916)	(70,814)
	766,469	722,703

Movements in 2016 and 2015 in the balance under Other reserves are as follows:

	2016	2015
Balance at the beginning of the year	722,703	685,013
Prior year surplus distribution	42,895	42,369
Share capital increases	15	78
Others	856	(4,757)
Balance at the close of the year	766,469	722,703

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 2016 and 2015 Other reserves attributed to the Parent Entity include €583,906k and €546,202k, 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 Other reserves – Reserves/(losses) attributable to subsidiaries at 31 December 2016 and 2015 is as follows:

	2016	2015
Seguros Lagun-Aro, Vida, S.A.	(165)	(4,204)
Caja Laboral Gestión, SGIIC, S.A.	1,257	1,256
Caja Laboral Pensiones, G.F.P., S.A.	97	92
Credilka, S.A.	858	856
Seguros Lagun-Aro, S.A.	2,133	(4,469)
Caja Laboral Kutxa Cartera, S.L.U.	1,505	7,239
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	3,291	1,448
Sociedad Gestión Activos Caja Laboral, S.A.U.	(13,014)	(12,893)
ISGA Inmuebles, S.A.	(69,878)	(61,781)
Piensos del Norte, S.A.	-	894
Copesa Montecerrao, S.L.	-	748
	(73,916)	(70,814)

(Expressed in €' 000)

The breakdown of the balance of reserves or accumulated losses of investments in joint ventures and associates at 31 December 2016 and 2015 is as follows:

	2016	2015
Associates:	93	10
ICR Institutional Investment Management, S.G.I.I.C., S.A.	93	10
Jointly-controlled entities:	-	(124)
Fomenclar, S.L.	-	-
Sociedades de Promoción Inmobiliaria (see Appendix I)	-	(124)
IK – LKS Corporate, S.L.	-	-
	93	(114)

Provided below is a breakdown by Entities of the contribution to Income attributed to the Group at 31 December 2016 and 2015:

	2016	2015
Parent entity	103,695	97,727
Subsidiaries	(273)	4,977
Seguros Lagun Aro Vida, S.A.	3,520	4,158
Caja Laboral Gestión S.G.I.I.C., S.A.	873	1,422
Caja Laboral Pensiones, G.F.P., S.A.	18	48
Clarim Alava, S.L.	-	-
Clarim Navarra, S.L.	-	-
Clarim Valladolid, S.L.	-	-
Seguros Lagun Aro, S.A.	6,070	8,066
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(10)	(13)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	678	394
Credilka, S.A.	(1)	1
Piensos del Norte, S.A.	-	(100)
Sociedad Gestión Activos Caja Laboral, S.A.U.	(143)	154
ISGA Inmuebles, S.A.	(11,278)	(9,423)
Eco Moncayo Azul, S.L.	-	-
Promociones Maralema, S.L.	-	-
Promociones Iturmendi 2010, S.L.	-	-
Residencial Los Doce Amigos, S.L.	-	-
Copesa Montecerrao, S.L.	-	270
Copesa Valdecilla, S.L.	-	-
Interpartners Promoción Inmobiliaria Castilla y León, S.L.	-	-
Entities measured under the equity method	51	83
- Associates:	51	83
ICR Institutional Investment Management, S.G.I.I.C., S.A.	51	83
- Jointly-controlled entities:	-	-
Fomenclar, S.L.	-	-
Sociedades de Promoción Inmobiliaria (see Appendix I)	-	-
IK – LKS Corporate, S.L.	-	-
	103,473	102,787

(Expressed in €' 000)

40. Accumulated other comprehensive income

Set out below is a breakdown of this heading in the consolidated balance sheets at 31 December 2016 and 2015:

	2016	2015
Items that may be reclassified to profit or loss	131,525	135,290
Hedging derivatives. Cash flow hedges (effective portion)	-	-
Available-for-sale financial assets:	131,525	135,290
Debt securities	89,474	105,043
Equity instruments	42,051	30,247
	131,525	135,290

The balance included under Equity Accumulated other comprehensive income - 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. When available-for-sale assets are sold, the changes are recorded on the consolidated income statement. Set out below are movements in the equity item accumulated other comprehensive income during 2016 and 2015:

	2016	2015
Balance at beginning of the year	135,290	166,311
Net movement charged /(credited) to income	(6,612)	17,704
Sales and redemptions	(8,652)	(9,029)
Impairment losses (net) charged against income statement	2,040	26,733
Net valuation gains / (losses)	2,847	(48,725)
Others	-	-
	131,525	135,290

In order to adequately evaluate the evolution of this heading, the exceptional circumstances in the financial markets during the 2016 and 2015 must be taken into consideration, as explained in Note 18.

The amount recorded under Equity measurement adjustments at 31 December 2016 and 2015 may be broken down by Entities as follows:

	2016	2015
Parent Entity	103,210	106,114
Subsidiaries:	28,315	29,176
- Seguros Lagun-Aro Vida, S.A.	24,778	24,572
- Seguros Lagun Aro, S.A.	3,537	4,604
Associates and Jointly-controlled companies	-	-
	131,525	135,290

41. Tax situation

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

Pursuant to Provincial Regulation 2/97 of the Gipuzkoa Tax Regime for Cooperatives, the tax rate applicable to credit cooperatives is 28%. In the remaining dependent financial companies the applicable tax rate was 28% in 2016 and 2015.

The legislation applicable to the payment of corporate income tax for 2016 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 2016, and those years open to inspection, in accordance with regional legislation in force at each year end.

Loss carryforwards and tax credits generated under Gipuzkoa regulations must be applied within 15 years.

(Expressed in €' 000)

The reconciliation for the Parent Entity of accounting income for 2016 and 2015 to the corporate income tax base is as follows:

	2016	2015
Accounting income for the year before taxes (*)	116,811	110,262
Permanent differences:		
Increases		
- Non-deductible expenses	620	254
- Other items	528	573
Decreases		
- Mandatory allocation to Development and Education Fund (Note 57) (*)	(7,833)	(7,538)
- Allocation to the Inter-Coop Company Fund	(11,306)	(10,759)
- Deductible gross interest paid on account in respect of contributions to share capital	(28,700)	(29,007)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(19,583)	(18,845)
- Capital gains reinvested in fixed assets used in the business	-	-
- Tax credits used	(9,416)	(16,378)
- Other items	-	5
Taxable income (tax loss)	41,121	28,567
Temporary differences		
- Arising in the present year	5,250	12,708
- Dynamic Payroll Plan	9,951	(9,404)
- Appropriations to other provisions	(4,701)	22,112
- Other	-	-
- Arising in previous years	14,863	7,884
Tax base	61,234	49,159
Offset of tax losses	(61,234)	(49,159)
Net tax base	-	-
Gross tax payable (28%)	-	-
Deductions and allowances	-	-
Net tax payable	-	-
Withholdings and payments on account	(2,762)	(3,041)
Corporate income tax payable / (refundable)	(2,762)	(3,041)

(*) Profit before tax, without considering the mandatory appropriation to community projects and social funds, included under the heading Other operating expenses in consolidated income statements (Note 57).

The breakdown of corporate income tax in the consolidated income statement for 2016 and 2015 is as follows:

	2016	2015
Accounting base at the applicable rate	11,514	7,999
Deductions and allowances	(1,376)	(1,213)
Other items	(359)	(1,643)
	9,779	5,143

(Expressed in €' 000)

The breakdown of 'Tax expense or (-) income related to profit from continuing operations" in the 2016 and 2015 consolidated income statements is as follows:

	2016	2015
Accounting profit at the statutory rate	11,514	7,999
Tax credits and tax relief	(1,376)	(1,213)
Other items	(359)	(1,643)
Corporate income tax, Parent Entity	9,779	5,143
Corporate income tax, Investee Entities		
Accounting profit at the statutory rate	3,690	4,110
Other items	-	-
	13,469	9,253

In addition to the Tax expense or (-) income related to profit from continuing operations shown in the consolidated income statement, deferred taxes have been generated or reversed as a result of accumulated other comprehensive income in respect of Equity for the years 2016 and 2015. The items and amounts in question are shown below:

	2016	2015
Accumulated other comprehensive income:		
Available-for-sale financial assets	(1,464)	(12,064)
Cash flow hedges	-	-
	(1,464)	(12,064)

At 31 December 2016 and 2015, 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	2016	2015
Unused tax losses	2027	635,800	705,607
		635,800	705,607

(Expressed in €' 000)

At 31 December 2016 and 2015, 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	2016	2015
Deductions for double taxation	2031	10,971	10,171
Deductions with limit over gross tax payable	2031	12,558	12,434
Deductions without limit over gross tax payable	2031	3,962	3,312
		27,491	25,917

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

The directors of the Parent Entity believe that it is probable that it will generate sufficient taxable profit in the future to enable the utilisation of the amounts shown above, to which end it has capitalised all of the above unused tax credits and unused tax losses as deferred tax assets (Note 33).

In accordance with prevailing tax legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the four-year inspection period has elapsed.

At 31 December 2016 the Parent Entity's tax returns for 2013 to 2016 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 2016. 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)

42. 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 2016 and 2015 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2016	Total Balance	Fair Value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash, cash balances at central Banks and other demand deposits	453,030	453,030	-	-	453,030
Financial assets held for trading	183,689	183,689	181,075	2,614	-
Financial assets designated at fair value through profit or loss	403	403	403	-	-
Available-for-sale financial assets	5,048,900	5,022,265	4,555,591	194,488	272,186
Loans and receivables	13,943,448	13,949,689	-	55,522	13,894,167
Held-to-maturity investments	439,533	531,311	528,899	2,412	-
Derivatives – Hedge accounting	186,213	186,213	-	186,213	-
TOTAL FINANCIAL ASSETS	**20,255,216**	**20,326,600**	**5,265,968**	**441,249**	**14,619,383**
Financial liabilities held for trading	2,297	2,297	744	1,553	-
Financial liabilities measured at amortized cost	18,487,909	18,487,909	-	-	18,487,909
Derivatives – Hedge accounting	178,447	178,447	-	178,447	-
TOTAL FINANCIAL LIABILITIES	**18,668,653**	**18,668,653**	**744**	**180,000**	**18,487,909**

2015	Total Balance	Fair Value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash, cash balances at central Banks and other demand deposits	209,855	209,855	-	-	209,855
Financial assets held for trading	258,966	258,966	256,417	2,549	-
Financial assets designated at fair value through profit or loss	558	558	558	-	-
Available-for-sale financial assets	4,616,341	4,589,196	4,070,487	221,428	297,281
Loans and receivables	13,949,842	13,949,842	-	-	13,949,842
Held-to-maturity investments	1,142,714	1,227,673	1,215,536	12,137	-
Derivatives – Hedge accounting	232,753	232,753	-	232,753	-
TOTAL FINANCIAL ASSETS	**20,411,029**	**20,468,843**	**5,542,998**	**468,867**	**14,456,978**
Financial liabilities held for trading	3,430	3,430	1,190	2,240	-
Financial liabilities measured at amortized cost	18,872,284	18,872,284	-	-	18,872,284
Derivatives – Hedge accounting	114,798	114,798	-	114,798	-
TOTAL FINANCIAL LIABILITIES	**18,990,512**	**18,990,512**	**1,190**	**117,038**	**18,872,284**

The criteria used to determine fair value are as follows:

Level 1: using listed prices on active markets for the same financial instruments.

Level 2: using listed prices on active markets for similar instruments or other measuring techniques in which all significant inputs are based on market data that is observable either directly or indirectly.

Level 3: using measurement techniques in which some significant inputs are not based on observable market data.

The measurement techniques used, and the assumptions applied to determine fair value, were as follows:

- Cash, cash balances at central Banks and other demand deposits: Fair value is considered to coincide with the carrying value as these consist of on demand deposits or amounts that can be realized in the short-term.

- Debt securities: For public debt assets and certain fixed-income securities issued by credit entities, fair value is based on listed prices on active markets (Level 1). Certain fixed-income securities 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 2016 and 2015 there are also unlisted equity instruments classified in the Available-for-sale financial asset portfolio recorded at historical cost for €26,635 thousand and €27,145 thousand, respectively, which have therefore not been considered in the above table.

- Loans and advances - Customers: 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 measured at amortized cost: No significant differences are deemed to exist between their carrying value and fair value due to the fact that most are indexed to a variable interest rate and/or, if this is not the case, they mature within 12 months.

The reasons why there may be differences between fair value and the carrying value of financial instruments are as follows:

- For fixed rate instruments, the fair value varies based on market interest rates. The variance is higher the longer the instrument's residual life.

- For variable rate instruments, fair value may differ from carrying value if the margins relating to the interest rate of reference have changed since the instrument was issued. If the margins remain constant the fair value coincides with the carrying value only on the repricing dates. At all other dates there is interest rate risk for flows that have already been calculated.

The movement of the balances of financial assets and liabilities at fair value classified as Level 3 in the accompanying consolidated balance sheets is shown below:

	Assets	Liabilities
Balances at 31 December 2014	**329,117**	**-**
Valuation adjustment recorded on income statement	(1,424)	-
Valuation adjustment not recorded on income statement	10,108	-
Purchases, sales and liquidations	(40,520)	-
Net additions/(exists) on Level 3	-	-
Currency exchanges and others	-	-
Balances at 31 December 2015	**297,281**	**-**
Valuation adjustment recorded on income statement	3,632	-
Valuation adjustment not recorded on income statement	16,841	-
Purchases, sales and liquidations	(45,568)	-
Net additions/(exists) on Level 3	-	-
Currency exchanges and others	-	-
Balances at 31 December 2016	**272,186**	**-**

During 2016 and 2015, there were no transfers of financial instruments between the different levels of valuation.

(Expressed in €' 000)

ii) Fair value of non-financial assets

The comparison at 31 December 2016 and 2015 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:

	2016		2015	
	Value recorded	Fair value	Value recorded	Fair value
Assets				
Tangible assets:				
For own use and investment properties	342,816	364,652	368,454	395,972
Non-current assets and disposal groups classifies as held for sale	278,987	278,987	354,765	354,765
Inventories	19,476	19,476	3,441	3,441

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

- At 31 December 2016 and 2015 the fair value of the properties included under the headings Property, plant and equipment for own use and Investment properties was calculated, at 90% and 51%, respectively, of the carrying cost through valuations, performed in 2012 and 2016 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.

- 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 V of Appendix IX to Bank of Spain Circular 4/2016, and for assets related to real estate development existing at 31 December 2011, the criteria established in Royal Decree-Law 2/2012. 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.

(Expressed in €' 000)

43. Guarantees given

The breakdown of this heading at 31 December 2016 and 2015 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:

	2016	2015
Financial guarantees	102,438	75,624
Other guarantees and sureties	146,972	171,481
Irrevocable documentary credits	10,332	10,450
	259,742	257,555

44. Contingent commitments given

The breakdown of this heading at 31 December 2016 and 2015 is as follows:

	2016	2015
Balances drawable by third parties:	893,232	869,833
Credit institutions	-	-
The Public Administrations sector	103,008	98,849
Other resident sectors	781,122	761,374
Non-residents	139	647
Securities subscribed pending disbursement	8,963	8,963
Other contingent commitments	151,844	115,257
Documents delivered to Clearing Houses	151,844	115,257
	1,045,076	985,090

45. Interest income

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Loans and advances	206,097	252,665
Central Banks	-	70
Credit institutions	3,836	3,341
Customers	202,261	249,254
Debt securities	87,007	133,015
Money market transactions	1,018	229
Doubtful assets	1,156	1,346
Financial income from insurance activities	17,798	18,465
Rectification of revenues owing to hedging operations	(13,569)	(16,155)
Other interest	36	44
	299,543	389,609

(Expressed in €' 000)

The distribution by geographical area of the number of the Group's bank branches at 31 December 2016 and 2015 is as follows:

	2016	2015
Bizkaia	94	103
Gipuzkoa	73	78
Araba	36	41
Navarra	43	47
New network	89	99
	335	368

46. Interest expense

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Deposits	78,900	167,215
Central Banks	3	251
Credit institutions	1,061	997
Customers	77,836	165,967
Operations on the monetary market	139	37
Marketable debt securities (Note 36)	771	1,247
Rectification of expenses owing to hedging operations	(51,456)	(87,810)
Other interest	61	23
	28,415	80,712

The rectification of expenses owing to hedging operations mainly refers to financial Swaps arranged to hedge the fair value of certain mortgage bond issues (Notes 36 y 28).

47. Dividend income

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Equity instruments:	7,993	8,536
Shares	7,993	8,536
	7,993	8,536

(Expressed in €' 000)

48. Share of profit or loss of entities accounted for using the equity method

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows (Note 39):

	2016	2015
Associates	51	83
Jointly-controlled entities	-	-
	51	83

49. Fee and commission income

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
For contingent exposures	3,606	3,501
For contingent commitments	1,052	1,175
For currency and foreign bank notes exchange	109	118
For collection and payment services	45,848	42,105
For securities services:	21,789	25,256
Underwriting and placement of securities	-	7
Purchase-sale of securities	850	1,218
Administration and custody	1,739	1,529
Asset management	19,200	22,502
For marketing of non-bank financial products:	17,958	20,450
Investment funds	1,748	1,695
Pension funds	14,849	17,584
Insurance	1,361	1,171
Others	-	-
Other fees	15,099	14,777
	105,461	107,382

50. Fee and commission expense

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Brokerage in asset and liability transactions	35	42
Fees assigned to other correspondent entities:	3,695	3,042
For collection or return of bills	6	63
For other items	3,689	2,979
Fees paid on securities operations	1,105	1,010
With market intermediaries	1,033	904
Other	72	106
Other fees	6,929	6,731
	11,764	10,825

(Expressed in €' 000)

51. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Available-for-sale financial assets	11,716	12,541
Loans and receivables	300	-
	12,016	12,541
Gains	26,003	18,797
Losses	(13,987)	(6,256)
	12,016	12,541

52. Gains or (-) losses on financial assets and liabilities held for trading, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Financial assets held for trading	1,836	739
	1,836	739
Gains	114,937	76,101
Losses	(113,101)	(75,362)
	1,836	739

53. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Financial assets designated at fair value through profit or loss	(282)	2,886
	(282)	2,886
Gains	816	4,328
Losses	(1,098)	(1,442)
	(282)	2,886

(Expressed in €' 000)

54. Gains or (-) losses from hedge accounting, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Hedging derivatives	(31,015)	(71,489)
Other	31,212	70,686
	197	(803)
Gains	4,313,827	932,626
Losses	(4,313,630)	(933,429)
	197	(803)

"Gains or (-) losses from hedge accounting – Hedging derivatives" refers to the measurement adjustments of the hedging derivatives for fair values hedges, for the years 2016 and 2015. As "Gains or (-) losses from hedge accounting – Other" refers to the measurement adjustments of the hedge item designated as hedge for fair value (Note 13.e).

55. Exchange differences [gains or (-) losses], net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Gains	155,823	370,027
Losses	(154,793)	(369,034)
	1,030	993

56. Other operating income

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Sales and revenues from non-financial services rendered	4,957	6,140
Other operating revenues	11,062	12,155
Financial fees offsetting costs	2,337	2,338
Revenues from other operating leases (net) (Note 31)	4,485	4,290
Inventory variations in real estate assets	-	-
Other	4,240	5,527
	16,019	18,295

(Expressed in €' 000)

57. Other operating expenses

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Contribution to Deposits Guarantee Fund (Note 10)	20,671	20,033
Contribution to National Resolution Fund (Note 10)	4,836	4,005
Mandatory appropriation to community projects and social funds (Note 34)	7,833	7,538
Purchases and expenses related to real estate assets	-	-
Other	10,343	6,694
Change in inventories	-	-
	43,683	38,270

The amounts recorded under the heading "Other operating expenses - Mandatory appropriation to community projects and social funds" of the consolidated income statements for the years ended 31 December 2016 and 2015 totalling €7,833k and €7,538k, 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).

In addition, under the heading "Other operating expenses– Other" is included at 31 December 2016, estimated financial contributions for the conversion of deferred tax assets into credit receivable by the Tax Authority amounting to €3,000k (Note 33).

58. Income from assets under insurance and reinsurance contracts

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Revenues from insurance and reinsurance policies issued	177,357	186,600
	177,357	186,600

59. Expenses on liabilities under insurance and reinsurance contracts

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Expenses for insurance and reinsurance policies	131,854	140,695
	131,854	140,695

(Expressed in €' 000)

60. Administrative expenses

a) Staff expenses

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Salaries and bonuses paid to serving employees	131,749	133,498
Social security contributions	5,812	6,793
Severance payments	1,658	223
Staff training expenses	1,547	1,297
Other staff costs	919	712
	141,685	142,523

At 31 December 2016 and 2015 the Parent Entity records remuneration related to services provided in the course of business, as analysed below:

	2016			2015		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	82	499	417	324	755	431

The average number of employees of the Group in the years 2016 and 2015 distributed by categories is as follows:

	2016	2015
Directors	55	54
Managers	461	489
Specialists	942	978
Administrative personnel	1,031	1,025
	2,489	2,546

Of the total workforce at 31 December 2016, 14 people had some degree of recognized disability (14 at 31 December 2015).

At 31 December 2016 and 2015 the Group's personnel fell into the following categories, by gender and location:

	Number of members					
	2016			2015		
	Women	Men	Total	Women	Men	Total
Directors	5	50	55	4	50	54
Managers	132	321	453	137	352	489
Specialists	481	425	906	522	456	978
Administrative personnel	613	420	1,033	622	403	1,025
	1,231	1,216	2,447	1,285	1,261	2,546
Parent Entity	952	1,093	2,045	984	1,135	2,119
All other Investee Entities:						
Subsidiaries	279	123	402	301	126	427
	1,231	1,216	2,447	1,285	1,261	2,546

(Expressed in €' 000)

The breakdown of the number of members of the Governing Body of the Parent Entity by gender, at 31 December 2016 and 2015, was as follows:

	Number of members					
	2016			2015		
	Women	Men	Total	Women	Men	Total
Members of Governing Body	3	11	14	3	11	14

b) Other administrative expenses

A breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
For buildings, installations and materials:	17,698	18,833
Rentals (Note 31)	6,003	6,609
Maintenance of fixed assets	7,115	7,243
Lighting, water and heating	2,997	3,248
Forms and office materials	1,583	1,733
Data processing	7,356	10,642
Communications	5,638	6,205
Advertising and publicity	8,868	9,934
Legal costs and lawyers' fees	3,643	5,259
Technical reports	27,654	14,007
Surveillance and transfer of funds services	1,908	1,906
Insurance and self-insurance premiums	1,066	1,123
By Governing and Control Bodies	196	305
Entertainment and staff travel expenses	2,127	2,558
Association charges	221	241
Administrative services subcontracted	6,145	11,257
Rates and taxes	10,930	13,799
Other expenses	3,094	2,832
	96,544	98,901

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.

61. Depreciation

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Property, plant and equipment:	19,657	19,996
Property, plant and equipment	18,653	19,069
For own use	14,697	15,360
Assigned under operating leases	3,956	3,709
Investment properties	1,004	927
Intangible assets	62	-
	19,719	19,996

(Expressed in €' 000)

62. Provisions or (-) reversal of provisions

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Pensions and other post-employment defined benefit obligations (Note 38)	21,437	2,481
Commitments and guarantees given (Note 38)	(4,919)	(778)
Pending legal issues and tax litigation (Note 38)	-	(162)
Other provisions (Note 38)	8,306	30,715
	24,824	32,256

63. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Available-for-sale financial assets (Note 25)	2,833	37,129
Debt securities	(1,724)	28,843
Equity instruments	4,557	8,286
Loans and receivables (Note 26)	(35,194)	2,380
Customers	(35,194)	2,380
	(32,361)	39,509

64. Impairment or (-) reversal of impairment of investments in joint ventures and associates

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
Associates (Note 29)	-	23
Jointly-controlled entities (Note 29)	-	-
	-	23

(Expressed in €' 000)

65. Impairment or (-) reversal of impairment on non-financial assets

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 at 2015 is as follows:

	2016	2015
Tangible assets (Note 31)	2,680	20,000
Other assets	-	-
	2,680	20,000

66. Gains or (-) losses on derecognition of non-financial assets and shareholdings, net

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 at 2015 is as follows:

	2016	2015
Net gains (losses) on the sale of tangible assets	(442)	(586)
Net gains (losses) on disposal of shareholdings	-	-
Other items	-	-
	(442)	(586)

67. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The breakdown of this heading in the consolidated income statement for the years ended 31 December 2016 at 2015 is as follows:

	2016	2015
Net gains/(losses) on sale of non-current assets	(23,297)	(15,439)
Impairment losses of Non-current assets for sale (Note 35)	(11,742)	24,914
	(35,039)	9,475

(Expressed in €' 000)

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

The significant balances recorded at 31 December 2016 and 2015 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 2016 and 2015 relating to asset and liability transactions with Jointly-controlled entities and Associates may be summarised as follows:

	2016	2015
Balances		
Customer funds	-	13
Non-current assets for sale	-	-
Guarantees	-	-

The most significant transactions carried out in 2016 and 2015 with Jointly-controlled entities and Associates are as follows:
:

	2016	2015
Interest and similar charges	-	-
Fees collected	-	-
Interest and similar income	-	-

69. Other information

A breakdown of customer funds off the Group's consolidated balance sheet at 31 December 2015 and 2016 is as follows:

	2016	2015
Managed by the Entity's Group:	3,892,822	3,769,409
Investment Funds and companies	1,868,333	1,744,227
Pension funds and EPSVs	1,639,971	1,640,924
Insurance contract saving	384,518	384,258
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	500,550	548,568
	4,393,372	4,317,977

In 2016 and 2015 the Group has carried out the following investment services on account of third parties:

	2016	2015
Brokering in securities market transactions	3,188,484	2,951,497
Deposit of securities owned by third parties	4,703,839	4,809,174

Total debt securities assigned by the Group at 31 December 2016 and 2015 amounted to €1,250,447 thousand and €1,472,092 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.

70. Information of issuers on the mortgage market and on the special accounting register

As indicated in Note 36, the Parent Entity issued mortgage bonds, so that we include 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.

(Expressed in €' 000)

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 2016 and 2015 amounts to €10,636 million and €10,945 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 €7,549 and €7,911 million, respectively.

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	
	2016	2015
	Nominal value	Nominal value
Total loans (a)	**11,495**	**11,804**
Mortgage bonds issued	**-**	**-**
Of which: Loans recognised in balance sheet	-	-
Mortgage transfer certificates issued	**859**	**859**
Of which: Loans recognised in balance sheet	859	859
Mortgage loans securing financing received	-	-
Loans securing issues of mortgage bonds and covered bonds	**10,636**	**10,945**
Non-eligible loans (b)	3,087	3,034
They fulfil requirements to be eligible, except the limit stipulated in Article 5,1 of RD 716/2009	1,996	1,925
Rest of non-eligible loans	1,091	1,109
Eligible loans (c)	7,549	7,911
Loans covering mortgage bond issues	-	-
Loans eligible for covered bond issue coverage	7,549	7,911
Non-computable amounts (d)	9	8
Computable amounts	7,540	7,903

(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 Decree 716/2009 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 12 of Royal Decree 716/2009.

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
(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 2016 and 2015:

	Million euros			
	2016		2015	
	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	**10,636**	**7,549**	**10,945**	**7,911**
1 ORIGIN OF THE OPERATIONS	**10,636**	**7,549**	**10,945**	**7,911**
1.1 Originated by the entity	10,547	7,486	10,848	7,840
1.2 Subrogated from other entities	89	63	97	71
1.3 Rest	-	-	-	-
2 CURRENCY	**10,636**	**7,549**	**10,945**	**7,911**
2.1 Euro	10,636	7,549	10,945	7,911
2.2 Rest of currencies	-	-	-	-
3 PAYMENT SITUATION	**10,636**	**7,549**	**10,945**	**7,911**
3.1 Normal in payment	9,880	7,486	10,040	7,660
3.2 Other situations	756	63	905	251
4 AVERAGE RESIDUAL MATURITY	**10,636**	**7,549**	**10,945**	**7,911**
4.1 Up to ten years	4,497	2,961	4,328	2,801
4.2 Over ten years up to twenty years	6,119	4,577	6,549	5,068
4.3 Over twenty years up to thirty years	20	11	68	42
4.4 More than thirty years	-	-	-	-
5 INTEREST RATES	**10,636**	**7,549**	**10,945**	**7,911**
5.1 Fixed	176	64	112	9
5.2 Variable	-	-	-	-
5.3 Mixed	10,460	7,485	10,833	7,902
6 OWNERS	**10,636**	**7,549**	**10,945**	**7,911**
6.1 Legal entities and individual entrepreneurs (business activities)	1,280	2	1,374	2
Of which: Real estate developments	*128*	-	*218*	-
6.2 Rest	9,356	7,547	9,571	7,909
7 TYPE OF GUARANTEE	**10,636**	**7,549**	**10,945**	**7,911**
7.1 Assets/finished buildings	10,501	7,536	10,701	7,894
7.1.1 Homes	9,867	7,514	10,038	7,609
Of which: Homes with official protection	*310*	*228*	*717*	*541*
7.1.2 Offices and commercial premises	345	18	305	18
7.1.3 Other buildings and constructions	289	4	358	267
7.2 Assets/Buildings under construction	6	-	36	-
7.2.1 Homes	6	-	35	-
Of which: Homes with official protection	-	-	-	-
7.2.2 Offices and commercial premises	-	-	1	-
7.2.3 Other buildings and constructions	-	-	-	-
7.3 Land	129	13	208	17
7.3.1 Developed	104	6	39	6
7.3.2 Rest	25	7	169	11

(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 2016 and 2015 amounts to €7,540 million and €7,903 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 2016 and 2015, 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 2016 and 2015 amount to €859 million and €859 million, respectively.

The nominal value of all non-eligible loans and mortgage loans totalled €3,087 million at 31 December 2016 (€3,034 million at 31 December 2015); 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 €1,996 million and €1,925 million at year-ends 2016 and 2015, 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 2016 and 2015, is as follows:

At 31 December 2016

	Million euros				
	Principal disposed on the last available appraisal (*loan to value*) (b)				
	2016				
	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)	**2,368**	**2,708**	**2,473**	**-**	**7,549**
- On home	2,350	2,689	2,463	-	7,502
- On others	18	19	10	-	47

At 31 December 2015

	Million euros				
	Principal disposed on the last available appraisal (*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

(a) Loans eligible for the issue of mortgage bonds and securities, according to article 3 of Royal Decree 716/2009 without deducting the limits to their computing established in article 12 of said Royal Decree.

(b) The loan to value is the ratio resulting from dividing the principal disposed of each operation on the value of the latest available appraisal.

(Expressed in €' 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 2016 and 2015 are as follows:

	Million Euros	
	Eligible loans (a)	Non-eligible loans (b)
1 Opening balance 2015	8,100	3,395
2 Derecognised during the year	1,151	837
2.1 Terminations at maturity	9	54
2.2 Advanced cancellations	100	218
2.3 Subrogations to other entities	-	-
2.4 Rest	1.042	565
3 Additions during the year	962	476
3.1 Originated by the entity	386	241
3.2 Subrogations from other entities	-	-
3.3 Rest	576	235
3.4 Additions due to business combinations	-	-
4 Closing balance 2015	7,911	3,034
1 Opening balance 2016	7,911	3,034
2 Derecognised during the year	1,160	734
2.1 Terminations at maturity	9	28
2.2 Advanced cancellations	105	130
2.3 Subrogations to other entities	-	-
2.4 Rest	1,046	576
3 Additions during the year	798	787
3.1 Originated by the entity	446	227
3.2 Subrogations from other entities	-	-
3.3 Rest	352	560
3.4 Additions due to business combinations	-	-
4 Closing balance 2016	7,549	3,087

(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 2016 and 2015 are as follows:

	Euro Million	
	2016	2015
	Principals available (a)	Principals available (a)
Mortgage loans that back the issue of mortgage bonds and securities	**28**	**32**
- Potentially eligible (b)	-	-
- Non-eligible	28	32

(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 2016 and 2015 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 27.49% and 42.66%, respectively, compared to the maximum of 80% established in the Article 16 of Law 2/1981, of 25 March, on the Regulation of the Mortgage Market.

(Expressed in €' 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 2016 and 2015:

	Million €			
	2016		2015	
Mortgages	Nominal value	Average residual maturity (in months)	Nominal value	Average residual maturity (in months)
1 Mortgage bonds issued	**-**		**-**	
2 Mortgage warrants issued	**2,075**		**3,375**	
Of which: registered in liabilities on balance sheet	1,225		1,825	
2,1 Securities representing debt, Issued through public offer	850		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	-		-	
2.1.4 Residual maturity greater than three years and up to five years	150		150	
2.1.5 Residual maturity greater than five years and up to ten years	-		-	
2.1.6 Residual maturity greater than ten years	-		-	
2.2 Securities representing debt. Rest of issues	-		-	
2.2.1 Residual maturity up to one year	-		-	
2.2.2 Residual maturity greater than one year and up to two years	-		-	
2.2.3 Residual maturity greater than two years and up to three years	-		-	
2.2.4 Residual maturity greater than three years and up to five years	-		-	
2.2.5 Residual maturity greater than five years and up to ten years	-		-	
2.2.6 Residual maturity greater than ten years	-		-	
2.3 Deposits	1,225		1,825	
2.3.1 Residual maturity up to one year	-		600	
2.3.2 Residual maturity greater than one year and up to two years	-		-	
2.3.3 Residual maturity greater than two years and up to three years	-		-	
2.3.4 Residual maturity greater than three years and up to five years	1,225		600	
2.3.5 Residual maturity greater than five years and up to ten years	-		625	
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	243	859	232
4,1 Issued through public offer	-	-	-	-
4.2 Rest of issues	859	243	859	232

(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).

71. 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 2016 is set out below:

	Days	
	2016	2015
Average supplier payment period	15	14
Transactions paid ratio	14	13
Transactions pending payment ratio	17	20

	Amount (thousand euro)	
	2016	2015
Total payments made	322,193	323,836
Total payments outstanding	45,413	64,866

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

a) Information on acquisitions of equity in Dependent, Jointly-controlled and Associates

In May 2016, the Group acquired 49% equity of Copesa Montecerrao, S.L., which already owned 51%, for a symbolic amount.

b) Business combinations

During 2016, there were no business combinations of relevance to the Group.

APPENDIX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL BREAKDOWN OF GROUP COMPANIES AND OTHER SHAREHOLDINGS AT 31 DECEMBER 2016

(€'000)

			2016								
			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	530,242	70,410	46,291	3,520
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	215,472	59,385	90,119	6,070
Caja Laboral Gestión, S.G.I.I.C, S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	12,078	8,410	15,039	873
Caja Laboral Pensiones, G.F.P., S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,281	2,616	2,826	18
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	61,171	61,167	-	(10)
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	Bilbao	Bancassurance operator	100%	-	10	-	10	9,022	3,068	33,133	678
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Real estate asset management	100%	-	4,968	(4,000)	968	10,275	8,849	5,806	(1,014)
Credilka, S.A.	Bilbao	Trading company	100%	-	1,620	-	1,620	2,477	2,477	-	(1)
ISGA Inmuebles, S.A.	Mondragón	Real estate development	100%	-	51,431	(33,487)	17,944	243,494	202,930	61,459	(58,697)
					170,075	(37,487)	132,588				

			2016								
			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	21.43%	-	30	-	30	963	768	1,594	236
					30	-	30				

(a) At 31 December 2016 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 2016. 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 2016.

This appendix forms an integrated part of Note 29 to the consolidated annual accounts and should be read together with it.

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APPENDIX 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 Ciempozuelos, S.L.	Mondragón	Real estate development	-	50%	-	-	-	13	13	-	(3)
					-	-	-				

			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)
Associates											
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Real estate development	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 29 to the consolidated annual accounts and should be read together with it.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AT 31 DECEMBER 2016 AND 2015

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	01/01/2013	Indefinite	Domestic	- Handle operations involving current accounts, savings accounts, term deposits, investment funds, pension plans and welfare plans, signing all necessary documents. - Process loans and other risk operations for the Entity. - Correspond with the Entity and keep in contact with the public, organising the work in the timetable and the form it considers appropriate, in accordance with rules and instructions received from the Entity

ANNUAL BANKING REPORT

Information at 31 December 2016 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 2016 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	405,505	2,393	116,942	13,469
TOTAL	**405,505**	**2,393**	**116,942**	**13,469**

For the purposes of this information, “business volume” is considered to be the gross margin disclosed on the consolidated income statement for December 2016. The data for equivalent full time employees has been obtained from information on the workforce of each company/country at the end of 2016.

The return on the Group's assets calculated as net profits attributed to the parent company divided by total assets at 31 December 2016 stood at 0.49%.

c) Grants or public aid received

Grants and public aid received by the Laboral Kutxa Group during 2016 were not significant.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

DIRECTORS' CONSOLIDATED REPORT FOR 2016

Global economic growth, which is expected to reach 3.1% in 2016, has continued with the sluggishness of previous years, remaining practically stable respect to the previous year, although in the last semester there was a greater dynamism of economic activity although more focused on advanced economies than on emerging markets.

The expectations improvement for 2017 are based on the anticipated US fiscal stimulus and the maintenance of stimulus policies in China. However, there are a several risks that can difficult this situation, such as: increase of protectionist measures in advanced economies, erosion of cohesion policies in the euro area, increase in market volatility due to rise of US interest rates and possible reduction of the stimulus of the monetary policy in Europe.

In the banking sector new stress tests have been developed by the European Banking Authority (EBA), which have generated doubts about the bank assets quality in Germany and, above all, have made it very clear the existence of a major crisis in Italy. Spanish entities anticipated much of the changes that banking sector in Europe are facing in the present, especially on two fronts: restructuring and transparency on the quality of assets.

In December FED decided to raise interest rate by a quarter of a point, leaving it at a range between 0.5% and 0.75%, but in most of the advanced economies the monetary policy maintains unchanged. Euribor 1 year has remained negative throughout 2016, which cuts the net interest income and deferred the expected recovery of credit institutions' profitability levels.

With regard to the banking sector in Spain, during the financial year 2016 the reduction of credit to private sector has been maintained. The decline in the credit formalisation to large companies has continued, although there has been a boost in new formalizations of housing credit and the increase in consumer credit has been maintained, although far from the previous year's growth rates. On the positive side, there is a reduction of doubtful assets with a drop in the loan-loss ratio to 9.2%.

In this context, Laboral Kutxa has managed to compensate the reduction of financial activity margins, thanks to a containing expenditure policy and to its loan portfolio high quality, reinforcing its high level of solvency.

The key figures of the business are set out below:

Total assets amount to €21,314.2 million, a reduction of 1.3% in relation to the end of last year.

Customer deposits amounted to €17,894.2 million, 2.1% lower than at the end of 2015, due basically to the maturity of mortgage secured bonds for €600 million. The rest of headings, outstands the rise of cash deposits by €1,639.8 million, due to the transfer of funds from Term deposits which fell by €987.8 million, without including the said effect of the maturity of mortgage secured bonds.

Loans and advances to customers stood at €13,501.6 million at 31 December 2016. 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 1.4% although there has been a major increase in home loans, consumer loans and lending to companies.

The volume of doubtful assets over customer loans has decreased a 24%, so the loan-loss ratio, calculated as the percentage represented by recorded under Other resident sectors, fell to 5.8% at end-2016, considerably lower than the industry average, which for deposit-taking entities was 9.2%.

On the other hand, Available-for-sale financial assets attained a figure of €5,048.9 million and their relative importance in the balance sheet increased, representing 23.7% of assets in 2016. At 31 December 2016 the balance in other comprehensive income reflected net capital gains of €131.5 million.

Productivity and liquidity indicators continue on sufficient levels in both absolute and relative terms. The efficiency ratio, measured as administration expenses/gross income pre-FEPC, stood at 58.8% in 2016 and the structural liquidity ratio, calculated in terms of loans/deposits, stood at 83.3%.

Concerning solvency, the Entity's eligible capital calculated on a consolidated basis at 31 December 2016 stands at €1,563.2 million. The CET1 (Common Equity Tier 1) ratio is 16.55%, one of the best in the sector and the total solvency ratio stands at 16.91%. The fully loaded CET1 ratio is 17.46%.

On the income statement, the following income and expense items should be noted:

Profits net of taxes amounted to €103.4 million in 2016, reaching €111.3 million benefits prior mandatory appropriation to community projects and social funds, exceeding the forecast in the Entity's Management Plan.

Despite of a low interest rate market, which has a direct effect on the first margins, the net interest income has risen to €271.1 million.

The sum of dividends, net commissions, gains on available-for-sale and held-for-trading portfolios, with other operating income and income from the insurance business in 2016 amount to €134.4 million, so the gross income stands at 405.5 million euros.

In terms of costs, the Entity has continued its policy of containment and rationalization of costs, which has led to a 1.3% reduction in administrative expenses, which stands at € 238.2 million.

The effect on results of impairment losses and transfers to provisions was quantified at €59.0 million, with a decrease in provisions for loan investment and an increase in foreclosured assets. In addition, the entity has maintained its traditional valuation policy of contingent risks and other financial instruments.

Regarding to the main Group's risks, a detail of them are shown in Notes 16 to 20 of the annual accounts for the year 2016.

The insurance business has contributed global profits of €28.7 million to the Laboral Kutxa Group due to a great performance in the renewal of premiums, and a claims ratio that has outperformed expectations.

Regarding to the real estate sector, once the divestment commitment was fulfilled in 2015, the process of reduction of risk positions with the promotion and real estate construction activity was maintained in 2016, with a decrease of €154.2 million to € 1,017.6 million at year-end.

One more year, the low interest rates and the reduction of business volumes will affect credit institutions' profitability levels in 2017. Without the contribution to results that was obtained in the past from financial operations, both the lower need for provisions for the reduction of entries into arrears and the cost reduction policies and the adequate management of non-performing assets will be important.

In this difficult scenario for the next year, the Entity expects that the decrease in financial costs will not compensate the lower contribution to the margin of the credit investment and debt securities portfolio, which will lead to a reduction of the net interest income. The contribution of income from financial operations with the expected reduction of administrative expenses and the lower need of provisions will allow to reach a profit after taxes similar to 2016.

With regard to business volume and intermediated resources, the reduction of cost of liabilities will continue, although the margin of reduction is lower, which means the transfer from Term deposits to cash balances, that have already produced during 2016, will be maintained, along with the increase of off-balance sheet resources.

An increase in consumer credit and risk amounts for non-real estate companies is foreseeable. There will be a significant increase in the formalization of housing loans, but not enough to increase the balances, which, with the decrease of credit to real estate sector, will cause, as in previous years, a slight reduction of credit investment.

The volume of doubtful risk will be reduced due to the decrease of entries into arrears, which will cause a further reduction of the loan-loss ratio of around half percentage point.

In a market environment dominated by zero and negative interest rates, and the difficulties of profitability generation on the income statement, the basic strategic approach is twofold: in commercial terms, the optimization of the recurrent margin, and in the structural one, searching for efficiency and cost control.

In this area, one of the decisions resulting from the strategic reflection finalized in October 2016 is the adaptation of the structures to the new needs.

The most relevant actions contemplated in this reorganization will be the unification of the structures of the Business and Particular Areas, both in the commercial area and in the business development area, and integration of risk management processes.

The average payment period to Group suppliers during 2016 was 15 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	31/12/2016

C.I.F.	F75076935

CORPORATE NAME
CAJA LABORAL POPULAR COOP. DE CREDITO

REGISTERED ADDRESS
PS. JOSE MARIA ARIZMENDIARRIETA S/N, (MONDRAGON) GIPUZKOA

ANNUAL REPORT ON THE CORPORATE GOVERNMENT OF OTHER ENTITIES -OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

A OWNERSHIP STRUCTURE

A.1 Details of the most significant shareholders or participants in your entity at year-end:

Name or company name of the shareholder or participant	% of share capital
LAGUNARO EPSV	15.19%

A.2. Indicate, where appropriate, any family, commercial, contractual or company relationships that exist between the significant shareholders or participants, as far as they are known by the entity, unless they are barely relevant or only arise in the ordinary course of business:

A.3 Indicate, where appropriate, any commercial, contractual or company relationships that exist between the significant shareholders or participants and the entity, unless they are barely relevant or only arise in the ordinary course of business:

A.4 Indicate, where appropriate, any restrictions on the exercise of voting rights, as well as any restrictions on the acquisition or transfer of equity holdings:

Yes X 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, THE 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 Briefly indicate the resolutions adopted at general meetings or equivalent bodies held in the year to which this report refers and the percentage of votes with which the resolutions were adopted.

DURING THE YEAR THE MOTIONS ADOPTED BY THE ANNUAL GENERAL MEETING HELD ON 23 APRIL 2016, WITH THEIR RESPECTIVE VOTING PERCENTAGES, WERE AS FOLLOWS:

- DESIGNATING THREE SHAREHOLDERS TO APPROVE THE MINUTES OF THE RESPECTIVE MEETING (UNANIMOUSLY).

- APPROVING THE ANNUAL ACCOUNTS AND THE MANAGEMENT REPORT REFERRING TO THE ENTITY AND ITS CONSOLIDATED GROUP (UNANIMOUSLY).

- PAYING INTERESTS TO SOCIAL CAPITAL (UNANIMOUSLY).

- DISTRIBUTING THE SURPLUS AVAILABLE 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).

- DESIGNATING FROM THE EDUCATION AND PROMOTION FUND, ALLOCATING 9.83% FOR LOCAL DISTRIBUTION, 11.14% FOR GENERAL DISTRIBUTION AND 79.02% 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 2017 GENERAL MEETING WILL SET THE INTEREST TO BE PAID ON THE CONTRIBUTIONS TO REGISTERED CAPITAL CORRESPONDING TO 2016, AND NONETHELESS AUTHORISING THE GOVERNING BOARD TO MAKE PAYMENTS ON ACCOUNT (UNANIMOUSLY).

- APPROVING THE REMUNERATION POLICY FOR THE MEMBERS OF THE GOVERNING BOARD (UNANIMOUSLY)

- EXTENDING THE APPOINTMENT OF PRICEWATERHOUSECOOPERS AS AUDITORS OF THE ENTITY FOR THE 2016 FINANCIAL YEAR (UNANIMOUSLY).

- AUTHORISING THE GOVERNING BOARD TO ISSUE PROMISSORY NOTES, BONDS AND OTHER FIXED INCOME SECURITIES (UNANIMOUSLY).

B.4 Indicate the address and how to access the entity's web page for the information on corporate governance.

THE CORPORATE GOVERNANCE CONTENT CAN BE ACCESSED FROM THE HOMEPAGE OF THE GENERAL WEB SITE (WWW.LABORALKUTXA.COM) OR FROM THE CORPORATE WEB SITE (http://corporativa.laboralkutxa.com) BY CLICKING ON "CORPORATE GOVERNANCE AND REMUNERATION POLICY".

B.5 State whether meetings have been held for the various unions, if any exist, for holders of shares issued by the entity, the purpose 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 members of the board/administrative body and their different statuses:

BOARD / ADMINISTRATIVE BODY MEMBERS

Name or company name of the board/ administrative body members	Representative	Date of last appointment
MR TXOMIN GARCIA HERNANDEZ		29/07/2015
MS MARÍA CARMEN IÑURRIA LANDERAS		29/07/2015
MS ELENA ZARRAGA BILBAO		29/07/2015
MR JAVIER OLEAGA MENDIARACH		29/07/2015
MR ADOLFO PLAZA IZAGUIRRE		29/07/2015
MS AINHOA GALLASTEGUI MARTÍNEZ		29/07/2015
MR JESUS IGNACIO PEÑA GÓMEZ		30/04/2013
MR IÑAKI JOSU GOÑI GABILONDO		30/06/2012
MR JOSE LUIS GARCIA GARCIA		30/06/2012
MR JOSE MARIA BALZATEGUI JULDAIN		30/06/2012
MR ROBERTO RUIZ DE INFANTE AGUIRRE		30/06/2012
MR JOSE JAVIER SAENZ DE BURUAGA GABILONDO		30/06/2012
MR LUIS MARIA UGARTE AZPIRI		30/06/2012
MR RAFAEL IDIGORAS ALBERDI		30/09/2013

C.1.3 Identify, where 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 members	Corporate name of the group's entity	Position
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO, S.A.	CHAIR
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO VIDA, S.A.	CHAIR

C.1.4 Complete the following table 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 2016		Year 2015		Year 2014		Year 2013	
	Number	%	Number	%	Number	%	Number	%
ADMINISTRATIVE BOARD	3	21.00%	3	21.00%	3	21.00%	3	20.00%
AUDIT COMMITTEE	2	67.00%	2	67.00%	2	67.00%	2	50.00%
APPOINTMENTS COMMITTEE	0	0.00%	0	0.00%	0	0.00%	N/A	N/A
REMUNERATION COMMITTEE	0	0.00%	0	0.00%	0	0.00%	N/A	N/A
RISKS COMMITTEE	2	40.00%	2	40.00%	1	20.00%	N/A	N/A

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	0
Variable salary	30	0
Expenses	0	0
Other payments	0	0
Total	161	0

C.1.6 Identify the members of senior management who are not directors or members of the executive management body and indicate the accrued compensation by them during the financial year:

Name or corporate name	Position
MR JULIO GALLASTEGUI ZUBIZARRETA	MANAGING DIRECTOR
MR CARLOS OSES IRULEGUI	PRIVATE CUSTOMER COMMERCIAL AREA DIRECTOR AND DEPUTY GENERAL MANAGER
MR ALFREDO ZABALETA BARREDO	RISK AREA DIRECTOR
MR JOSU ARRAIZA MARTÍNEZ DE LAGRAN	BUSINESS AREA DIRECTOR
MR XABIER EGUIBAR GAINZA	BUSINESS DEVELOPMENT AREA DIRECTOR
MR JOSÉ ANTONIO UNANUE ETXEBERRIA	FINANCIAL AREA DIRECTOR
MR ROMAN AGUIRRE BEITIA	MEDIA AREA DIRECTOR
MS NURIA AGUIRRE UNZUETA	CORPORATE MANAGEMENT DIRECTOR
MR OSCAR EGUSKIZA SIERRASESUMAGA	RISK MANAGEMENT DIRECTOR

Total senior management remuneration (in thousands of euros)	1,286

C.1.7 Indicate whether the articles of association or the board regulations establish a limited mandate for directors or members of the administrative body:

Yes ☐ No ☒

C.1.8 Indicate whether the individual and consolidated annual accounts that are presented for approval by the board or administrative body are previously certified:

Yes ☐ No ☒

Identify, when appropriate, the person or persons that have certified the individual and consolidated annual accounts for the entity, for their formulation by the board or administrative body:

C.1.9 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 COMMITTEE	5
REMUNERATION COMMITTEE	5
RISKS COMMITTEE	5

C.2.2 Describe all the committees of the board or administrative body, their members and the proportion of executive, proprietary, independent and other external directors of which they are composed (entities that do not have the legal form of capital company do not fulfil the board member category in the relevant table, and the text section will explain the category of each director in accordance with their legal regime and the manner in which they meet the conditions of composition for the audit, appointments and remuneration committees):

Audit committee

Name	Position	Category
MS MARÍA CARMEN IÑURRIA LANDERAS	CHAIR	
MR ADOLFO PLAZA IZAGUIRRE	MEMBER	
MS ELENA ZARRAGA BILBAO	MEMBER	

% of shareholding board members	
% of independent board members	
% of other external members	
Number of meetings	9

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 BOARD, FOR SUBMISSION TO THE GENERAL MEETING, THE APPOINTMENT, EXTENSION OR RESIGNATION OF THE EXTERNAL ACCOUNT AUDITORS.

C) SUPERVISE THE INTERNAL AUDIT SERVICES

D) BE AWARE OF THE FINANCIAL INFORMATION PROCESS AND THE COMPANY'S INTERNAL CONTROL SYSTEMS.

E) COMMUNICATE WITH THE EXTERNAL AUDITORS TO RECEIVE INFORMATION ABOUT MATTERS THAT COULD COMPROMISE THEIR INDEPENDENCE AND ANY OTHER INFORMATION RELATED TO THE ACCOUNTS AUDIT PROCESS, PLUS ANY OTHER COMMUNICATION REQUIRED BY ACCOUNT AUDITING LEGISLATION AND THE TECHNICAL AUDIT STANDARDS.

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 2016, THE FOLLOWING ARE HIGHLIGHTED:

• IT HAS SUPERVISED THE PROCESS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION PUBLISHED BY CAJA LABORAL, THROUGH THE EVIDENCE FROM THE INTERNAL AUDIT DEPT., PARTICULARLY THE FOLLOWING VERIFICATIONS:
- REVIEWING THE INDIVIDUAL AND CONSOLIDATED ANNUAL ACCOUNTS PREPARED BY THE ENTITY AND THE CORRESPONDING MANAGEMENT REPORTS
- REVIEWING THE QUARTERLY CONSOLIDATED PUBLIC FINANCIAL STATEMENTS SENT TO THE BANK OF SPAIN
- REVIEWING THE MARKET TRANSPARENCY INFORMATION PUBLISHED TWICE A YEAR BY THE ENTITY
- REVIEWING THE QUARTERLY OWN RESOURCES DECLARATION SENT TO THE BANK OF SPAIN

- REVIEWING THE INFORMATION OF PRUDENTIAL RELEVANCE PUBLISHED BY THE ENTITY

- IT HAS SUPERVISED THE INTERNAL FINANCIAL INFORMATION CONTROL SYSTEM (FIICS) THROUGH THE REVIEW PROCEDURE ESTABLISHED BY THE INTERNAL AUDIT DEPT.
- IT HAS SUPERVISED THE IMPLEMENTATION OF THE CHANGES ARISING FROM CIRCULAR 4/2016 WHICH MODIFIED CIRCULAR 4/2004
- IT HAS SUPERVISED THE CAPITAL SELF-EVALUATION PROCESS CARRIED OUT BY THE ENTITY
- 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, FOR SUBMISSION TO THE GENERAL MEETING, 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 ACCOUNTS AUDIT REPORT BEING ISSUED

Identify the director who is a member of the audit committee who has been appointed on the basis of his or her knowledge and experience in accounting, auditing or both and state the number of years that the Chairperson of this committee has held the position.

Name of the board member with experience	MS ELENA ZARRAGA BILBAO
No. of years the chairperson has held the position	1

Appointments Committee

Name	Position	Category
MR JOSE JAVIER SAENZ DE BURUAGA GABILONDO	MEMBER	
MR JOSE LUIS GARCIA GARCIA	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR ROBERTO RUIZ DE INFANTE AGUIRRE	CHAIR	
MR IÑAKI JOSU GOÑI GABILONDO	MEMBER	

% of shareholding board members	
% of independent board members	
% of other external members	
Number of meetings	6

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.

ON 29 APRIL 2016 THE GOVERNING BOARD AGREED TO FORMALLY ESTABLISH THE APPOINTMENTS COMMITTEE AND THE REMUNERATION COMMITTEE AS SEPARATE COMMITTEES, AMENDING ARTICLE 11 OF THE RULES OF PROCEDURE OF THE GOVERNING BOARD.

THE APPOINTMENTS COMMITTEE HAS THE SPECIFIC DUTIES DESCRIBED IN THE GOVERNING BOARD REGULATIONS (ART 11.b), THAT IS:

- TO IDENTIFY AND RECOMMEND CANDIDATES, WITH A VIEW TO THEIR APPROVAL BY THE GOVERNING BOARD OR BY THE GENERAL MEETING, TO FILL THE VACANT POSTS OF THE GOVERNING BOARD.
- TO EVALUATE THE BALANCE OF KNOWLEDGE, ABILITY, DIVERSITY AND EXPERIENCE OF THE GOVERNING BOARD AND PREPARE A DESCRIPTION OF THE ROLES AND CAPABILITIES REQUIRED FOR A SPECIFIC APPOINTMENT, EVALUATING THE AMOUNT OF TIME ENVISAGED FOR THE PERFORMANCE OF THE JOB.

- TO PERIODICALLY EVALUATE, AT LEAST ONCE A YEAR, THE STRUCTURE, SIZE, COMPOSITION AND ACTIVITY OF THE GOVERNING BOARD, MAKING RECOMMENDATIONS ON THIS WITH RESPECT TO POSSIBLE CHANGES.

- TO PERIODICALLY EVALUATE, AT LEAST ONCE A YEAR, THE SUITABILITY OF THE VARIOUS MEMBERS OF THE GOVERNING BOARD AND OF THE GOVERNING BOARD AS A WHOLE, AND TO REPORT BACK ON THESE FINDINGS.

- TO PERIODICALLY REVIEW THE POLICY OF THE GOVERNING BOARD ON THE SELECTION AND APPOINTMENT OF MEMBERS OF THE SENIOR MANAGEMENT AND PROPOSE RECOMMENDATIONS.

- TO PERFORM THE FUNCTIONS ASSIGNED IN THE PROCEDURES MANUAL FOR THE SELECTION AND EVALUATION OF SUITABLE DIRECTORS AND KEY PERSONNEL.

- TO ESTABLISH A TARGET FOR THE REPRESENTATION OF THE GENDER LEAST REPRESENTED ON THE GOVERNING BOARD AND PREPARE GUIDELINES ON HOW TO INCREASE THE NUMBER OF THE GENDER LEAST REPRESENTED WITH A VIEW TO ACHIEVING THAT OBJECTIVE.

THE REGULATIONS ESTABLISH THAT THE APPOINTMENTS COMMITTEE WILL MEET WHENEVER IT IS CONSIDERED APPROPRIATE, WHEN CALLED BY ITS CHAIR, ON THEIR OWN INITIATIVE OR AT THE REQUEST OF ANY OF ITS MEMBERS. EACH OF THEM HAS ONE VOTE AND MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES.

WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, 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.

THE FOLLOWING INCLUDE THE MOST SIGNIFICANT ACTIONS OF THE APPOINTMENTS COMMITTEE IN 2016:

- 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, ABILITY, DIVERSITY AND EXPERIENCE ON THE GOVERNING BOARD.

- PRESENTATION OF THE EVALUATION REPORT ON THE STRUCTURE, SIZE, COMPOSITION AND ACTIVITY OF THE GOVERNING BOARD

- REVIEW OF THE PROPOSAL FOR THE GOVERNING BOARD POLICY ON THE SELECTION, APPOINTMENT AND SUCCESSION OF THE MEMBERS OF SENIOR MANAGEMENT.

- PROPOSAL FOR THE MODIFICATION OF THE PROCEDURES MANUAL FOR THE SELECTION AND EVALUATION OF THE SUITABILITY OF DIRECTORS AND KEY PERSONNEL OF CAJA LABORAL POPULAR COOP. DE CREDITO.

Remuneration Committee

Name	Position	Category
MR JOSE JAVIER SAENZ DE BURUAGA GABILONDO	MEMBER	
MR JOSE LUIS GARCIA GARCIA	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR ROBERTO RUIZ DE INFANTE AGUIRRE	CHAIR	
MR IÑAKI JOSU GOÑI GABILONDO	MEMBER	

% 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.

ON 29 APRIL 2016 THE GOVERNING BOARD AGREED TO FORMALLY ESTABLISH THE APPOINTMENTS COMMITTEE AND THE REMUNERATION COMMITTEE AS SEPARATE COMMITTEES, AMENDING ARTICLE 11 OF THE RULES OF PROCEDURE OF THE GOVERNING BOARD.

THE REMUNERATION COMMITTEE HAS THE SPECIFIC DUTIES DESCRIBED IN THE GOVERNING BOARD REGULATIONS (ART 11.c), THAT IS:

- TO PROPOSE TO THE GOVERNING BOARD THE GENERAL REMUNERATION POLICY TO BE APPLIED IN THE ENTITY AND TO PREPARE THE DECISIONS TO BE ADOPTED BY THE GOVERNING BOARD CONCERNING REMUNERATION, INCLUDING THOSE THAT HAVE REPERCUSSIONS FOR THE RISK AND THE MANAGEMENT OF RISKS OF THE ENTITY.

- TO REPORT TO THE GOVERNING BOARD ON THE REMUNERATION POLICY OF THE MANAGEMENT INCLUDED IN THE "IDENTIFIED GROUP" AS WELL AS THE GENERAL REMUNERATION OF DIRECTORS WHEN THEY HAVE REMUNERATION FOR SUCH A STATUS AND THE DIRECTOR-GENERAL AND EQUIVALENTS, AS WELL AS THE INDIVIDUAL REMUNERATION AND OTHER CONTRACTUAL CONDITIONS OF THE MEMBERS OF THE GOVERNING BOARD WHO PERFORM EXECUTIVE FUNCTIONS.

- TO ENSURE THAT AN INDEPENDENT ANNUAL EVALUATION (INTERNAL OR EXTERNAL) OF THE APPLICATION OF THE REMUNERATION POLICY IS CARRIED OUT.

- TO ENSURE COMPLIANCE WITH THE REMUNERATION POLICY ESTABLISHED IN THE ENTITY AND PERIODICALLY REVIEW THE REMUNERATION POLICY APPLIED TO MANAGEMENT INCLUDED IN THE "IDENTIFIED GROUP" AND OF DIRECTORS WHEN THEY HAVE REMUNERATION FOR SUCH A STATUS AND THE DIRECTOR GENERAL AND EQUIVALENTS.

- TO EXERCISE THE OTHER FUNCTIONS AS LAID OUT IN THE CURRENT LEGISLATION, THE ARTICLES OF ASSOCIATION, AS WELL AS THOSE WHICH WERE ASSIGNED BY THE DECISION OF THE GOVERNING BOARD.

THE REGULATIONS ESTABLISH THAT THE REMUNERATION COMMITTEE WILL MEET WHENEVER IT IS CONSIDERED APPROPRIATE, WHEN CALLED BY ITS CHAIR, ON THEIR OWN INITIATIVE OR AT THE REQUEST OF ANY OF ITS MEMBERS. EACH OF THEM HAS ONE VOTE AND MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES.

WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, 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.

THE FOLLOWING INCLUDE THE MOST SIGNIFICANT ACTIONS OF THE REMUNERATION COMMITTEE IN 2016:

- UPDATE OF THE "REMUNERATIONS POLICY OF CAJA LABORAL POPULAR COOP.DE CRÉDITO", PROPOSING NEW APPOINTMENTS IN THE IDENTIFIED GROUP.

- PROPOSAL OF THE REMUNERATION POLICY OF THE GOVERNING BOARD FOR THE GENERAL MEETING.

- PRESENTATION OF THE INTERNAL EVALUATION REPORT ON THE REMUNERATION POLICY OF CAJA LABORAL POPULAR.

Risks committee

Name	Position	Category
MR LUIS MARIA UGARTE AZPIRI	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR RAFAEL IDIGORAS ALBERDI	MEMBER	
MS ELENA ZARRAGA BILBAO	CHAIR	
MS AINHOA GALLASTEGUI MARTÍNEZ	MEMBER	

% 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 REGULATIONS ESTABLISH THAT THE RISKS COMMITTEE WILL MEET WHENEVER IT IS CONSIDERED APPROPRIATE, WHEN CALLED BY ITS CHAIR, ON THEIR OWN INITIATIVE OR AT THE REQUEST OF ANY OF ITS MEMBERS. EACH OF THEM HAS ONE VOTE AND MOTIONS ARE ADOPTED BY SIMPLE MAJORITY AND THE VOTE OF THE CHAIR RESOLVES TIES

WITH REGARD TO THE CATEGORY OF THE BOARD MEMBERS WHICH MAKE UP THE COMMITTEE, ELENA ZARRAGA (COMMITTEE CHAIR) AND RAFAEL IDIGORAS ARE "INDEPENDENT BOARD MEMBERS" (40% OF THE TOTAL), AINHOA GALLASTEGUI ES IS "WORKING PARTNER BOARD MEMBER" (20% OF THE TOTAL), TXOMIN GARCA 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 2016 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 2015 IAC.
- IT HAS ANALYSED AND VALIDATED THE RECOVERY PLAN.
- IT HAS ANALYSED AND VALIDATED THE RISK APPETITE FRAMEWORK (RAF), THE RISK APPETITE STATEMENT (RAS), METHODOLOGIES AND STRESS TESTING SCENARIOS AND IT HAS CARRIED OUT MONITORING OF THE CORRESPONDING MANAGEMENT PLAN.

D LINKED OPERATIONS AND INTERGROUP OPERATIONS

D.1 Give details of the operations carried out between the entity or entities of your group, and the shareholders, cooperative participants, holders of proprietary rights or any other of an equivalent nature of the entity.

D.2 Give details of the operations performed between the entity or entities in your group, and the entity's administrators or members of the administrative body or directors.

D.3 Give details of the intergroup operations.

D.4 Give details of the mechanisms established to detect, determine and resolve possible conflicts of interest between your entity or your group and your 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 BOARD THAT HARM THE INTERESTS OF CAJA LABORAL, TO THE BENEFIT OF ONE OR MORE SHAREHOLDERS OR THIRD PARTIES, THE FOLLOWING SPECIFIC REGULATIONS CAN BE APPLIED, REFERRING TO POSSIBLE CONFLICTS OF INTEREST:

A) IN COMPLIANCE WITH ARTICLE 7 OF THE RISKS POLICY MANUAL, AND AS A GENERAL CRITERIA, ALL THE RISK OPERATIONS PROPOSED BY THE MEMBERS OF THE GOVERNING BOARD, GENERAL MANAGER, THEIR FAMILY MEMBERS UP TO SECOND DEGREE CONSANGUINITY AND RELATED COMPANIES WILL REQUIRE 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 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 TREASURY AND CAPITALS MARKET RISKS, WHICH ARE EXPRESSLY DELEGATED TO THE TREASURY DEPARTMENT, AND CREDIT RISK FOR THAT RELATED TO ATTRIBUTIONS CORRESPONDING TO BRANCHES OR TO THE RISKS AREA.

E.2 Identify the bodies in the entity responsible for the preparation and execution of the Risk Management System.

GOVERNING BOARD: 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 BOARD. 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 BOARD, 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 INTERNAL CREDIT RISK 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 CENTRALISING, WITHIN A SINGLE DEPT., THE MEASUREMENT AND CONTROL OF ALL RISKS, REPORTING TO THE COAP AND THE RISKS COMMITTEE, ON WHICH IT DEPENDS FUNCTIONALLY. 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 CREDIT RISK WITH PRIVATE INDIVIDUALS AND COMPANIES, IN RESPECT OF ACCEPTANCE AS WELL AS FOR THE MONITORING AND RECOVERY OF IRREGULAR SITUATIONS IN THE PREVENTATIVE PHASE. IT INTERVENES IN THE SANCTION OF DOUBTFUL LOANS OF A CERTAIN AMOUNT THROUGH ITS PARTICIPATION IN THE DOUBTFUL LOANS COMMITTEE.

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 ORGANISATION OF CONTROL AND MONITORING OF THE DIFFERENT AREAS OF REGULATORY COMPLIANCE. IT COORDINATES THE ENTITY'S DIFFERENT AREAS AND DEPARTMENTS.

NETWORK OF BRANCHES: FIRST PHASE IN THE PRIVATE INDIVIDUALS AND COMPANIES CREDIT RISK ADMISSION PROCESS, UP TO THE LIMIT OF THEIR SCOPE IN WHICH THEY HAVE DELEGATED FUNCTIONS FOR THE SCORING/RATING 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 BOARD 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. DURING RECENT YEARS, PROVISIONS HAVE BEEN MADE FOR FUTURE REQUIREMENTS.

WITH REGARD TO REPUTATIONAL RISK, THE SITUATIONS ARISING FROM BUSINESS WITH THE CLIENTÈLE THAT HAVE GENERATED NEGATIVE ADVERTISING ARE BEING MANAGED.

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 that make up the control and risk management systems in relation to the financial reporting process (FIICS) of your 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 BOARD 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 APPROPRIATE."

"THE GOVERNING BOARD 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 THE GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. 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 for: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring there are sufficient procedures for its proper dissemination in the entity.

THE DESIGN AND REVIEW OF THE ORGANISATIONAL STRUCTURE IS THE RESPONSIBILITY OF THE ORGANISATION DEPARTMENT, WHICH ANALYSES AND REVIEWS THE NEED FOR RESOURCES IN EACH AREA SO THAT THEY 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 STAFF 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 OFFICE 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 ACTIVITY, AND FOR THE DUTIES AND TASKS CARRIED OUT THEREIN, PUBLISHING THEM IN THE DIRECTORY OF EACH AREA.

IN 2015, IT APPROVED THE ORGANISATION MANUAL, A SINGLE REPOSITORY FOR THE TASKS PERFORMED IN THE ORGANISATION, AND IN 2016 IT WAS PUBLISHED ON THE CORPORATE INTRANET ACCESSIBLE BY ALL THE STAFF, TOGETHER WITH THE ORGANISATIONAL CHART OF THE ENTITY.

- Code of conduct, approving body, degree of dissemination and instruction, principles and values included (indicating whether there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing non-compliance and for proposing corrective actions and disciplinary measures.

THE ENTITY HAS A CODE OF ETHICS AND PROFESSIONAL CONDUCT, THE LAST UPDATE OF WHICH WAS APPROVED BY ITS GOVERNING BOARD IN JUNE 2015.

THE CODE OF ETHICS AND PROFESSIONAL CONDUCT ESTABLISHES, IN SECTION 3.6, ASPECTS TO BE TAKEN INTO ACCOUNT REGARDING RELIABILITY OF FINANCIAL INFORMATION, OF WHICH THE FOLLOWING ARE NOTEWORTHY:

"CAJA LABORAL IS RESPONSIBLE FOR PROVIDING RELIABLE, ACCURATE, COMPLETE AND TIMELY INFORMATION ON ITS FINANCIAL STATEMENTS AND ON EVENTS WHICH MAY HAVE A SIGNIFICANT IMPACT ON THESE.

IN ADDITION TO THE PROCEDURES ESTABLISHED IN THE GROUP TO ENSURE THAT THE FINANCIAL INFORMATION IS PREPARED IN COMPLIANCE WITH THE VALUATION REGULATIONS AND PRINCIPLES IN FORCE, ALL THE WORKING MEMBERS 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 CRIMINAL 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 CRIMINAL MATTERS. 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 irregularities of a financial and accounting nature, in addition to any non-compliance with the code of conduct or irregular activities in the organisation, reporting, if 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 2016 ARE DESCRIBED BELOW: ANALYSIS AND RISK MANAGEMENT, REGULATORY COMPLIANCE, FINANCIAL MANAGEMENT, INVESTMENT ANALYSIS…

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. What are 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 PROCESS 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 FIICS 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 COVERS 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 PLANNED FREQUENCY OF THE IDENTIFICATION PROCESS OF THE RELEVANT MATERIAL AREAS AND PROCESSES IS AT LEAST ANNUALLY, USING THE MOST RECENT FINANCIAL INFORMATION. FURTHERMORE, THIS EVALUATION WILL ALSO BE PERFORMED WHENEVER CIRCUMSTANCES ARISE WHICH HAVE NOT BEEN PREVIOUSLY IDENTIFIED AND WHICH SHOW POSSIBLE ERRORS IN THE FINANCIAL INFORMATION OR WHEN SUBSTANTIAL CHANGES ARE MADE IN THE OPERATIONS WHICH MAY LEAD TO THE IDENTIFICATION OF NEW RISKS, INCLUDING SITUATIONS WHICH ENTAIL CHANGES IN THE STRUCTURE OF THE GROUP, SUCH AS: MODIFICATIONS TO THE SCOPE OF CONSOLIDATION OR IN THE BUSINESS LINES, OR OTHER RELEVANT EVENTS, AMONG OTHER ASPECTS.

- The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental or special purpose entities.

THE ENTITY HAS A PROCEDURE FOR IDENTIFYING AND UPDATING THE SCOPE OF CONSOLIDATION, WHICH IS THE RESPONSIBILITY OF THE 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.

- Whether 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 MANAGEMENT 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 reviewing and authorising the financial information and the description of the FIICS, to be published on the securities markets, indicating those responsible, as well as descriptive documentation of the flows of activities and controls (including those related to the risk of fraud) of the different types of transactions that may materially affect the financial statements, including the accounting closure procedure and the specific review of relevant judgements, estimates, valuations and projections.

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 BOARD.

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 ACTIVITY.
- 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

- CONCESSION.
- 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 IMPAIRMENT LOSSES OF CERTAIN ASSETS.
- THE USEFUL LIFE APPLIED TO THE ELEMENTS OF THE TANGIBLE 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 ACTIVATED TAX CREDITS

ALSO, WITHIN THE FIICS , CAJA LABORAL HAS ESTABLISHED A GENERAL POLICY FOR MAKING JUDGEMENTS AND ESTIMATES, WHICH INCLUDES ALL THE ASPECTS TO BE CONSIDERED SUCH AS THE RESPONSIBILITIES IN THEIR 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.

IN THE 2016 FINANCIAL YEAR, VARIOUS INITIATIVES WERE IMPLEMENTED IN RELATION TO THE COMPREHENSIVE SECURITY MASTER PLAN THAT EMERGED FROM THE SECURITY DIAGNOSIS WHICH WAS CONDUCTED WITH THE AIM OF CARRYING OUT A COMPREHENSIVE SECURITY ANALYSIS AND DETECTING IMPROVEMENTS IN THE AREAS OF GOVERNANCE, SURVEILLANCE, PROTECTION AND RESILIENCE.

REGARDING THE AREA OF GOVERNANCE, THE COMPREHENSIVE SECURITY POLICY WAS APPROVED, AS A REFERENCE DOCUMENT AND STARTING POINT THAT OUTLINES THE STRATEGIES FOR THE ENTITY'S SECURITY AND WHICH ALSO REFLECTS THE COMMITMENT OF THE MANAGEMENT. ITS AIM IS TO SERVE AS A GUIDELINE FOR DEVELOPING THE PROCEDURES AND IMPLEMENTING THE PROCESSES FOR MANAGING SECURITY.

LASTLY, IN RELATION TO THE AREA OF GOVERNANCE, PROGRESS WAS MADE IN THE DEVELOPMENT AND DOCUMENTATION OF SECURITY FUNCTIONS THAT WILL LEAD TO THE REDEFINITION AND IMPROVEMENT OF SECURITY PRACTICES, THE ASSIGNMENT OF RESPONSIBILITY AND THE DEFINITION OF METRICS IN THE COMING YEAR.

REGARDING THE AREAS OF PROTECTION AND SURVEILLANCE, ANOTHER INITIATIVE WAS DEVELOPED TO IMPLEMENT A FRAMEWORK OF TRAINING AND AWARENESS ON SECURITY MATTERS FOR THE STAFF OF CAJA LABORAL. FIRSTLY, THERE WILL BE ONLINE TRAINING, VIA THE GARATUZ PLATFORM, THAT WILL BE DIRECTED AT ALL STAFF AND WHICH WILL BE LAUNCHED AT THE BEGINNING OF NEXT YEAR.

REGARDING THE AREA OF RESILIENCE, AND FOCUSED ON CRISIS MANAGEMENT, THE UPDATING OF THE BUSINESS CONTINUITY PLAN WAS INITIATED. ALL THE PROCESSES OF THE ENTITY WERE ANALYSED, DETERMINING WHICH WERE THE MOST CRITICAL FROM A CONTINUITY POINT OF VIEW, AND THE CORRESPONDING ANALYSIS OF THE IMPACT OF THESE HAS BEEN STARTED. THE OBJECTIVE, BEYOND HAVING THE CORRESPONDING PLANS, IS TO IMPLEMENT A BUSINESS CONTINUITY MANAGEMENT SYSTEM.

LASTLY, THE PLANS FOR SELF-PROTECTION OF THE CENTRAL BUILDINGS WERE COMPLETED.

F.3.3. Internal control policies and procedures for supervising the management of activities subcontracted to third parties, as well as those aspects of evaluation, calculation or valuation assigned to independent experts, which may materially affect the financial statements.

IN 2016, THE ACTIVITIES ASSIGNED TO THIRD PARTIES, RELATED TO VALUATIONS AND CALCULATIONS OF INDEPENDENT EXPERTS, WERE RELATED TO THE VALUATION OF PROPERTIES FOR OWN USE. A CLASSIFICATION AND VALUATION OF ASSETS WAS ALSO CARRIED OUT IN ORDER TO EVALUATE AND ACKNOWLEDGE THE RISK TOLERANCE, TO HELP DRAW UP THE GUIDELINES AND LEVELS TO DEFINE THE SECURITY MEASURES TO BE IMPLEMENTED DEPENDING ON THE CATEGORISATION OF THE ASSETS, ALLOWING A RATIONAL AND HOMOGENEOUS INVESTMENT IN THE AREA OF SECURITY.

WITH REGARD TO THE SURVEILLANCE AREA, A DETECTION, CONTAINMENT AND RESPONSE SERVICE WAS CONTRACTED TO COMBAT CYBER THREATS. ETHICAL HACKING WAS ALSO CARRIED OUT TO ANALYSE THE VULNERABILITIES BY PERFORMING A PENETRATION TEST ON THE ELECTRONIC BANKING APPLICATION AND THE INFRASTRUCTURE THAT SUPPORTS IT

F.4 Information and communication

State, highlighting the main characteristics, whether you have at least:

F.4.1. A specific role in charge of defining and keeping accounting policies up to date (accounting policies area or department) and resolving questions or conflicts arising from their interpretation, maintaining smooth communications with those responsible for operations in the organisation, as well as maintaining an accounting policy manual, updated and notified to the units through which the entity operates.

THE INSPECTION DEPARTMENT IS RESPONSIBLE FOR IDENTIFYING, DEFINING AND COMMUNICATING THE ACCOUNTING POLICIES THAT AFFECT THE ENTITY, INCLUDING THE SUBSIDIARIES, AND FOR ANSWERING ANY ACCOUNTING QUERIES THAT MAY ARISE IN 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 SUBSIDIARY COMPANY OF THE FINANCIAL GROUP AND IT IS THE INSPECTION DEPT. THAT SUPERVISES THE COMPLIANCE OF THOSE INVESTEE COMPANIES WITH THE ACCOUNTING POLICIES ESTABLISHED BY THE GROUP. THIS DEPARTMENT ANALYSES AND REVIEWS THE INFORMATION FROM THE SUBSIDIARIES AND MAKES ANY CORRECTIONS THAT MAY BE NECESSARY.

IF THERE ARE REGULATORY CHANGES CONCERNING THE FINANCIAL INFORMATION THAT HAVE AN IMPACT ON THE FINANCIAL STATEMENTS, THE INSPECTION DEPARTMENT IS RESPONSIBLE FOR REVISING, ANALYSING AND UPDATING THE ACCOUNTING STANDARDS. FURTHERMORE, THIS DEPARTMENT IS ALSO RESPONSIBLE FOR NOTIFYING ANY AMENDMENTS OR UPDATES TO BOTH THE ENTITY'S BUSINESS UNITS AND THE SUBSIDIARIES.

THE FRAMEWORK FOR FINANCIAL ACCOUNTING 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, OF 22 DECEMBER, FROM THE BANK OF SPAIN.

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 given about the FIICS.

THERE ARE CONTROL MEASURES IN PLACE TO ENSURE THAT THE BACK-UP DATA FOR THE FINANCIAL INFORMATION IS COLLECTED IN FULL, AND IN AN ACCURATE AND TIMELY MANNER, BEING ALSO NOTIFIED IN A TIMELY MANNER. THE PROCESS OF CONSOLIDATION AND PREPARATION OF THE FINANCIAL INFORMATION IS CENTRALISED AND CARRIED OUT BY THE ENTITY.

THIS PROCESS USES THE CONSOLIDATION PACKAGES FROM THE FINANCIAL STATEMENTS REPORTED BY THE SUBSIDIARIES AS INPUT, FOLLOWING THE GUIDELINES AND FORMATS IN PLACE, AS WELL AS THE REST OF THE FINANCIAL INFORMATION REQUIRED, BOTH IN THE ACCOUNT STANDARDISATION PROCESS AND TO COVER THE ESTABLISHED INFORMATION REQUIREMENTS. THE INTERVENTION DEPARTMENT IS RESPONSIBLE FOR REVIEWING THE FINANCIAL INFORMATION REPORTED BY THE SUBSIDIARY COMPANIES.

THE INSPECTION DEPARTMENT PERFORMS A SERIES OF CONTROLS TO ENSURE THE RELIABILITY AND CORRECT PROCESSING OF THE FINANCIAL INFORMATION RECEIVED FROM THE SUBSIDIARIES AND THE BUSINESS UNITS, AMONG WHICH ARE CHECKS ON THE CORRECT IMPLEMENTATION OF THE VARIOUS CONSOLIDATION ENTRIES, VARIATIONS IN THE RESULTS OBTAINED ON THE BUDGET AND THE CHECKS SPECIFIC TO THE BANK OF SPAIN, WHERE THE VARIOUS BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ENTRIES ARE INTER-RELATED.

F.5 Supervising the system's operation

Give details, highlighting the main characteristics, of at least:

F.5.1. The FIICS supervision activities carried out by the Audit Committee and whether the entity has an internal audit function that includes among its responsibilities the support of the committee in its work of supervising the internal control system, including the FIICS.

Also, give details on the scope of the evaluation of the FIICS conducted in the financial year and on the procedure by which the person responsible for carrying out the evaluation communicates its results, whether the entity has an action plan detailing any corrective measures and whether its impact on 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 BOARD 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 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.

THE SCOPE OF THE SUPERVISION AND EVALUATION OF THE FIICS PERFORMED DURING THE 2016 FINANCIAL YEAR INCLUDED THE FOLLOWING REVIEWS:

- REVIEW OF THE TRANSVERSAL PROCESSES OF ACCOUNTING CLOSURE AND CONSOLIDATION. ALSO, THE PROCESS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION PUBLISHED BY CAJA LABORAL WAS SUPERVISED.

- REVIEW OF THE JUDGEMENTS AND ESTIMATIONS USED FOR CALCULATING RELEVANT CONTINGENT LIABILITIES AND PROVISIONS
- REVIEW OF THE TRANSVERSAL PROCESS OF GENERAL COMPUTER CONTROLS
- REVIEW OF THE CREDIT INVESTMENT BUSINESS PROCESS

THE RESULT OF THE FIICS REVIEW AND EVALUATION CARRIED OUT IN 2016 WAS PERIODICALLY PRESENTED TO THE AUDIT COMMITTEE BY THE DIRECTOR OF THE INTERNAL AUDIT DEPARTMENT.

F.5.2. Whether you have a discussion procedure whereby the auditor (in accordance with that established in the Technical Auditing Standards), the internal audit function and other experts can communicate with senior management and the Audit Committee or administrators of the entity, any significant internal control weaknesses identified during the review processes of the annual accounts or any others that have been entrusted to them. Also, whether there is an action plan to correct or reduce 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 RESPONSIBILITIES 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 THEY ARE EXPECTED TO BE COMPLETED IN 2017. 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 anything relevant in terms of corporate governance in the entity or in the companies of the group that is not included in the other sections of this report but which should be included in order to provide more complete and reasoned information on the structure and governance practices within the entity or its group, give a brief description.

Any other information, clarification or detail relating to the previous sections of the report can also be included in this section as long as it is relevant and does not repeat what has already been stated.

Specifically, indicate whether the entity is subject to any legislation other than Spanish legislation in matters of corporate governance and, if applicable, include the information that it is obliged to provide and which is different from that required in this report.

The entity may also indicate whether it has voluntarily adhered to other international, sectoral or other codes of ethical principles or good practices. Where applicable, the entity will identify the code in question and the date of adhesion.

1.- THIS INFORMATION COMPLEMENTS SECTION A. PROPERTY STRUCTURE:

THE MAJORITY OF THE COOPERATIVES AND THEIR TRADING COMPANIES WHICH ARE PARTNERS OF CAJA LABORAL, IN TURN, FORM PART OF MONDRAGÓN CORPORACIÓN COOPERATIVA. THIS CORPORATION, WHICH CAJA LABORAL IS PART OF, IS A GROUP OF FREELY ASSOCIATED COOPERATIVES WHICH SHARE A SET OF COOPERATIVE VALUES AND WHICH SEEK TO ACHIEVE COMPETITIVE ADVANTAGES FROM THEIR JOINT COOPERATIVE ACTION.

CAJA LABORAL CONTRIBUTES, IN THE FORM OF A SUBSIDY, TO MONDRAGON INVERSIONES S.COOP. AND TO MONDRAGON FOUNDATION (ORGANISATIONS BELONGING TO OR FORMED BY COOPERATIVES ASSOCIATED WITH THE MONDRAGON CORPORATION) AN ANNUAL AMOUNT EQUIVALENT TO 15% OF THE AVAILABLE SURPLUS FROM THE PREVIOUS YEAR, (AFTER TAXES AND INTEREST ON CAPITAL) WHICH IS TAKEN FROM THE INTERCOOPERATIVE COMPANY FUND (FSI).

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 BOARD, NOTWITHSTANDING THAT RECEIVED FOR THE WORK THEY PERFORM IN THE ENTITY AS WORKERS. THE REST OF THE MEMBERS OF THE GOVERNING BOARD DO NOT RECEIVE REMUNERATION FOR BELONGING TO THE BOARD EITHER.

CAJA LABORAL 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 board or administrative body of the entity, at its meeting on 28/02/2017.

Indicate any directors or members of the administrative body who have voted against or abstained in connection with the approval of this report.

This report has been approved unanimously

CAJA LABORAL POPULAR COOP. DE CRÉDITO

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND DIRECTORS' REPORT FOR 2016

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 an accurate analysis of the development and results obtained by the Group during the year ended 31 December 2016.

As a result, the members of the Governing Council of Caja Laboral Popular Coop. de Crédito (Parent Entity) hereby prepare the Consolidated Directors' Report and consolidated financial statements on 28 February 2017 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 2016. 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)	

(*) D. Roberto Ruiz de Infante Aguirre has not signed the consolidated annual accounts for the financial year 2016, due to the fact that at the date of Governing Council he was travelling for professional reasons.