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

Audit report
Consolidated annual accounts
and Management report for the fiscal year 2019

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual financial statements of Caja Laboral Popular Coop. de Crédito (the Parent Company) and its dependent companies (the Group) which comprise the balance sheet as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the attached consolidated annual financial statements give, in all material respects, a true and fair view of the Group's net worth and financial position as at 31 December 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matters	How they have been dealt with in the audit
Impairment loss of assets in loan portfolio	
The determination of impairment losses on the loan portfolio is one of the most complex and relevant estimates in the preparation of the attached consolidated financial statements and has therefore been considered as a Key audit matter. The assessment of credit risk impairment is based on models that provide a high level of judgement for the determination of impairment losses, taking into account elements such as: • The classification of the different loan portfolios according to their credit risk profile. • The identification and classification of assets which are under special surveillance or impaired. • The use of assumptions with an effect on provisions and estimates of the achievement of a certain level of cash flows by borrowers whose impairment is estimated individually, based on the most recent information available. • The realisable value of the collaterals associated with the credit operations granted. In this context, the Group uses models that, based on its experience and the information it has on the banking sector in which it operates as well as forecasts of future conditions, enable it to estimate the collective provisions for credit risk and the provisions for risks estimated on an individual basis. See notes 2, 13.h), 25 and 62 of the report on the attached consolidated financial statements.	Our work on the estimation of the loan portfolio impairment has focused on the analysis, evaluation and verification of the general internal control framework, as well as on carrying out detailed checks on estimated provisions, both collectively and individually. With regard to the internal control system, among others, we have carried out the following procedures: • Understanding and review of the calculation methods applied. • Verification of the conformity of the different policies and procedures approved by the Group's Governing bodies with the applicable regulatory requirements. • Verification of the main aspects relating to the security environment of the information systems that support the calculation of provisions. • Review of the periodic risk assessment and monitoring alerts carried out by the Group to identify risks that could be considered to be under special surveillance or impaired. • Evaluation of whether the process of periodic review of the borrower files for the monitoring of their accounting classification and recording of impairment, where applicable, is carried out in an appropriate manner. In addition, we have performed detailed checks consisting of: • Selective verification of provisioning calculation databases, contrasting the main attributes and figures with supporting documentation. • Re-calculation of collective provisions for credit risk. • Review of a selection of files in order to evaluate their proper classification and registration and, where appropriate, the corresponding impairment. • Assessment of the idoneity of the estimates related to the calculation of individually determined provisions.

Key audit matters	How they have been dealt with in the audit
	Any difference obtained as a result of our procedures with respect to management's calculations has been maintained within a reasonable range in relation to the amount included in the attached consolidated financial statements.
Provisions for tax, legal and regulatory litigation The Group is involved in administrative, judicial or any other type of proceedings relating to legal, fiscal and regulatory matters, mainly arising in the normal course of business. In this context, there are also situations which, although not subject to legal proceedings, require the recording of provisions, in accordance with the evaluation of the Group Management, such as those relating to the possible impacts of the refund of the amounts received as a result of the application of Royal Decree-Law 1/2017, on consumer protection measures relating to floor clauses and those intended to compensate customers for the marketing of certain products. In general, due to the complexity of these procedures and the long period of time over which they take place, both the determination of the expected outcome of these proceedings and the evaluation of their economic impact are a particularly complex and uncertain matter as to their possible outcome and/or definite amount. Consequently, the estimation of the provisions for litigation is one of the areas that entails a greater component of estimation in terms of its possible impact on the attached consolidated financial statements and has therefore been considered as a Key audit matter. The Group records a provision for these items, estimating, therefore, the associated disbursement as probable on the basis of the estimates made, applying calculation procedures consistent with successful experience, legal analysis and the uncertain conditions inherent in the obligations they cover. See note 37 of the report on the attached consolidated financial statements.	We have analysed and documented our understanding of the Group's process for identifying and evaluating litigation and open processes and the Group's process for recording provisions, focusing our procedures on aspects such as: • Understanding of the policy for rating claims and litigation and allocating provisions, if applicable. • Analysis of the main types of current lawsuits, claims and litigation. • Obtaining confirmation letters from solicitors and other advisers working with the Group to compare their assessment of the expected outcome of claims or litigation, the totality of the information, the correct recording of provisions, as well as the identification of potential omitted liabilities. • Evaluation of possible contingencies in relation to compliance with tax obligations for periods open for inspection. • Analysis of the recording, estimation and movement of accounting provisions. Specifically for provisions aimed at compensating clients and covering the outcomes of contingencies related to floor clauses, our procedures focused on: • Understanding the control environment related to the calculation and to the review of the associated provision. • Evaluating the methods and hypotheses used by the Group by verifying that they are consistent with the applicable accounting framework. • Verifying the use of historical data to determine the provisions to be maintained.

Key audit matters	How they have been dealt with in the audit
	• Analysing a selection of lawsuits and claims by verifying the correct grouping of cases by type for the calculation of provisions. • Analysing a selection of operations with floor clauses by verifying the traceability of the main determining attributes of the provision with the Group's calculations. • Confirmation from internal solicitors regarding the total number of ongoing proceedings. The result of our work shows that the provisions for tax, legal and regulatory litigation included in the attached consolidated financial statements are within an appropriate range, based on the application of reasonable judgements in their evaluation and estimation process, taking into account the particularities of the various claims, litigation and other contingencies identified and communicated by the Group's management and/or legal and tax advisers.
Valuation of insurance contract liabilities The Group acts as a life insurance by offering life risk, life savings and unit-linked insurance. In addition, it is active in non-life insurance, mainly in car insurance, civil liability and in areas of multi-risk, mainly household insurance. The Group registers the liabilities associated with these contracts in accordance with the applicable regulatory standards where, in some cases, it incorporates components of certain judgements and estimates by the Group management to reflect the unaccrued amounts of the premiums issued, the mathematical provision and the provisions for benefits. Besides, the Group calculates the mathematical provision using complex actuarial techniques based on critical calculation assumptions such as the technical interest rate, assumed expense or mortality tables in accordance with applicable legislation. The calculation of benefit provisions and, in particular, of undeclared claims is a complex estimate and is significantly influenced by projection methods ans assumptions used by the Management, such us the impact of personal claims, in accordance to the aplicable legislation.	We have conducted an understanding of the process of estimating and recording liabilities for life and non-life insurance contracts, which has included an evaluation of the form and effectiveness of internal control related to this area including controls on the most relevant information systems. Our procedures have focused on aspects such as: • Understanding the methods used for calculating the provisions for life and non-life insurance according to the nature of the products, as well as their consistent application with respect to the previous year. • Verifying the adequate accounting record of the provisions for life and non-life insurance contracts, as well as their variations during the period. • Reviewing the calculation and time allocation corresponding to the provision for outstanding premiums. • Carrying out detailed checks on the consistency of the information relating to reserves constituted at the end of the period and payments made during the same.

Key audit matters	How they have been dealt with in the audit
As a result of the previously explained reasons, this area has been considered as a Key audit matter See note 36 of the report on the attached consolidated financial statements.	With specific regard to the mathematical provision, we have developed additional complementary procedures in which specialist actuaries were involved in relation to: • Review of the integrity and reconciliation of the base data of technical-actuarial calculations. • Verification of the application of biometric hypotheses that are appropriate to the applicable regulations. • Review of significant hypotheses used by the Management based on past experience and practices in the insurance sector. • Recalculation of the mathematical provision for some policies. On the other hand, with specific regard to the provision for benefits, our specialist actuaries have assisted in aspects such as: • Review of the integrity and reconciliation of the base data of technical-actuarial calculations. • Review based on independent statistical projections for certain branches, paying special attention to those with the greatest impact and those provisions with the greatest estimation component. Any difference obtained as a result of our procedures with respect to management's calculations has been maintained within a reasonable range in relation to the amount of liabilities per contract included in the attached consolidated financial statements.

Key audit matters	How they have been dealt with in the audit
IT environment change During 2019 fiscal year, the Group has changed its main transactional IT environment to a new platform, based on distributed computing, which is managed by their internal IT personnel. The environment change project addressed the whole organization, not only being required the migration of data between the two platforms but also the configuration of the new system to comply with Group's specific operational needs. From an early phase, the Group defined and set a framework for the control, management and project follow up, aiming to avoid any inherent error risk and mitigate the impact these errors could have had over the IT environment supporting most of the Group's business. Thus, we identify as audit key matter the review of this specific framework for the IT platform change, as well as the assessment of IT processes in the new system, due to the impact the change has over Group's financial data.	On the first place, with the involvement of our IT specialist team, we proceed to understand the process performed by the Group, the management framework they followed and the controls set for that purpose. On the other hand, keeping in mind the systems and application with direct impact over Group's financial data, we completed specific analysis procedures to identify the key controls set during the project, such as the following ones: • Director Plan • Migration scope • Risk analisys • Key issues management • New environment gap analisys • Transformation and load processes • Testing • Problem management • Migration processes • Post-migration follow up Apart from platform change assessment specific processes, we performed the following audit procedures: • Internal control general understanding for the new platform. • Business key control testing over the new platform. • Key automatic processes assessment over the new platform. The results of our procedures were satisfactory in general means and no potential issue was detected, which could have had direct impact over the financial accounts included.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s administrators and does not form an integral part of the consolidated annual accounts.

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

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

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

On the basis of the work performed, as described above, the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 9 March 2020.

Appointment period

The Ordinary General Assembly of the Parent Company held on 6 April 2019 appointed us as auditors for a period of 1 year, starting from the year ended 31 December 2019.

Previously, we were appointed by agreement of the Ordinary General Assembly of the Parent Company for an initial period and we have been carrying out the work of account auditing uninterruptedly since the year ended on 31 December 2001.

Services provided

The services, other than account auditing, provided to the Group are disclosed in note 11 in the report of the attached consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

José Antonio Simón Maestro (15886)

9 March 2020

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019
(Expressed in thousands of euros)

ASSETS	Note	2019	2018 (*)
Cash, cash balances at central Banks and other on demand deposits (**)	22	1,745,682	1,573,346
Financial assets held for trading	23	47,066	127,111
Derivatives		2,173	4,342
Equity instruments		576	494
Debt securities		44,317	122,275
Pro-memoria: provided or given as security with the right to sell or pledge		*5,224*	*13,815*
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	26	50,883	62,136
Equity instruments		48,673	51,224
Debt securities		2,210	10,912
Pro-memoria: provided or given as security with the right to sell or pledge		-	-
Financial assets at fair value with changes in other comprehensive income	24	1,275,239	1,136,015
Equity instruments		88,990	120,860
Debt securities		1,186,249	1,015,155
Pro-memoria: provided or given as security with the right to sell or pledge		*60,998*	*54,456*
Financial assets at amortised cost	25	20,856,007	18,998,859
Debt securities		6,412,588	5,542,505
Loans and advances		14,443,419	13,456,354
Pro-memoria: provided or given as security with the right to sell or pledge		*1,522,435*	*807,602*
Derivatives – hedge accounting	27	106,525	148,906
Investments in joint ventures and associates	28	325	2,845
Associates		325	2,845
Assets covered by insurance or reinsurance contracts	29	28,689	30,395
Tangible assets	30	348,588	321,755
Property, plant and equipment		297,364	271,364
For own use		279,299	256,433
Leased out under operating leases		18,065	14,931
Associated with Community Projects		-	-
Investment properties		51,224	50,391
Of which: leased out under operating leases		*39,077*	*38,223*
Pro-memoria: acquired under a financial lease		-	-
Intangible assets	31	33,425	33,480
Goodwill		33,425	33,425
Other intangible assets		-	55
Tax assets	32	285,065	260,225
Current tax assets		1,242	2,757
Deferred tax assets		283,823	257,468
Other assets	33	108,565	86,764
Insurance contracts linked to pensions		-	-
Stocks		68,127	48,621
Rest of other assets		40,438	38,143
Non-current assets and disposal groups classified as held for sale	34	172,361	207,496
TOTAL ASSETS		**25,058,420**	**22,989,333**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)
(**) See details in the consolidated cash flow statement

Notes 1 to 71 and Annexes I to IV are an integral part of the consolidated balance sheet as at 31 December 2019.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019
(Expressed in thousands of euros)

LIABILITIES	Note	2019	2018 (*)
Financial liabilities held for trading	**23**	**1,215**	**1,893**
Derivatives		1,215	1,893
Financial liabilities at amortised cost	**35**	**22,181,867**	**20,229,145**
Deposits		21,728,097	19,787,998
Central banks		296,640	297,857
Credit institutions		6,372	9,061
Customers		21,425,085	19,481,080
Debt securities issued		76,840	104,631
Other financial liabilities		376,930	336,516
Pro-memoria: subordinated liabilities		-	-
Derivatives – hedge accounting	**27**	**255,198**	**158,166**
Liabilities covered by insurance or reinsurance contracts	**36**	**592,064**	**590,477**
Provisions	**37**	**174,942**	**188,415**
Pensions and other post-employment defined benefit obligations		24,700	40,204
Other long-term employee benefits		-	-
Pending procedural issues and tax disputes		-	-
Commitments and guarantees given		20,224	19,479
Other provisions		130,018	128,732
Tax liabilities	**32**	**78,750**	**58,043**
Current tax liabilities		12,595	4,474
Deferred tax liabilities		66,155	53,569
Other liabilities	**33**	**80,886**	**75,246**
Of which: community projects and welfare fund		*13,914*	*13,089*
Liabilities included in disposal groups of items that have been classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**23,364,922**	**21,301,385**

NET WORTH	Note	2019	2018
Equity	**38**	**1,764,293**	**1,688,843**
Capital		759,608	741,461
Paid up capital		759,608	741,461
Pro-memoria: capital not called up		-	-
Accumulated earnings		-	-
Revaluation reserves		-	-
Other reserves		913,393	858,321
Reserves or accumulated losses from investments in joint ventures and associates		-	191
Other		913,393	858,130
(-) Treasury stock		(1,839)	(1,620)
Profit/(loss) attributable to owners of the parent entity		127,364	124,173
(-) Interim dividends		(34,233)	(33,492)
Other accumulated comprehensive income	**39**	**(70,795)**	**(895)**
Items that will not be reclassified to profit or loss		16,491	14,940
Items that may be reclassified to profit or loss		(87,286)	(15,835)
Minority interests (non-controlling interests)		**-**	**-**
Other accumulated comprehensive income		-	-
Other items		-	-
TOTAL NET WORTH		**1,693,498**	**1,687,948**
TOTAL NET WORTH AND LIABILITIES		**25,058,420**	**22,989,333**
Pro-memoria: off-balance sheet exposures			
Financial guarantees granted	**42**	**207,193**	**94,871**
Loan commitments granted	**43**	**959,464**	**989,896**
Other commitments granted	**43**	**304,984**	**289,202**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)

Notes 1 to 71 and Annexes I to IV are an integral part of the consolidated balance sheet as at 31 December 2019.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

(Expressed in thousands of euros)

	Note	2019	2018 (*)
Interest income	44	283,095	279,485
(Interest expenses)	45	33,211	33,013
NET INTEREST INCOME		249,884	246,472
Dividend income	46	7,073	11,646
Profit or loss of entities accounted for using the equity method	47	(9)	(168)
Fee and commission income	48	116,350	114,107
(Fee and commission expenses)	49	12,217	12,582
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	50	737	25,834
Profit or (-) loss on financial assets and liabilities held for trading, net	51	772	69
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	50	5,230	(3,638)
Profit or (-) loss on financial assets and liabilities stated at fair value through profit or loss, net	52	-	-
Profit or (-) loss from hedge accounting, net	53	(62)	(15,947)
Exchange rate differences [profit or (-) loss], net	54	501	543
Other operating income	55	14,559	15,118
(Other operating costs)	56	44,132	41,323
Of which: mandatory contributions to community projects and welfare funds		*10,332*	*9,485*
Income from assets covered by insurance or reinsurance contracts	57	189,528	194,780
(Expenses for liabilities covered by insurance or reinsurance contracts)	58	133,240	140,171
GROSS MARGIN		394,974	394,740
(Administration costs)	59	218,867	227,041
(Staff costs)		130,286	127,698
(Other administrative costs)		88,581	99,343
(Amortisation)	60	22,057	17,424
(Provisions or (-) reversal of provisions)	61	15,796	21,375
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit or loss or (-) net gains through modification)	62	(11,391)	12,268
(Financial assets at fair value with changes in other comprehensive income)		(160)	6,636
(Financial assets at amortised cost)		(11,231)	5,632
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	63	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	64	1,313	(136)
(Tangible assets)		1,313	(136)
Profit or (-) loss on derecognition of non-financial assets, net	65	(745)	310
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	66	(4,201)	21,800
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		143,386	138,878
(Expenses or (-) income from taxes on earnings from continuing activities)	40	16,022	14,705
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		127,364	124,173
Profit or (-) loss after tax from discontinued operations		-	-
PROFIT/(LOSS) FOR THE YEAR		127,364	124,173
Attributable to minority interests (non-controlling interests)		-	-
Attributable to the owners of the parent company	38	127,364	124,173

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)

Notes 1 to 71 and Annexes I to IV are an integral part of the consolidated profit and loss account for the year ended 31 December 2019.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in thousands of euros)

	Note	2019	2018 (*)
PROFIT/(LOSS) FOR THE YEAR		**127,364**	**124,173**
OTHER COMPREHENSIVE INCOME		**(69,900)**	**(31,671)**
Items that will not be reclassified to profit or loss		**1,551**	**(6,588)**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	**39**	2,132	(9,089)
Income tax related to items that will not be reclassified		(581)	2,501
Items that may be reclassified to profit or loss		**(71,451)**	**(25,083)**
Hedge of net investments in foreign operations (effective portion)		**-**	**-**
Currency conversion		**-**	**-**
Cash flow hedges (effective portion)	**39**	**(150,249)**	**945**
Profit or (-) loss of value recorded in net equity		(150,249)	945
Transferred to profit and loss		-	-
Other reclassifications		-	-
Hedging instruments (undesignated items)		**-**	**-**
Debt instruments at fair value with changes in other comprehensive income		**50,949**	**(36,496)**
Profit or (-) loss of value recorded in net equity		51,354	(4,219)
Transferred to profit and loss		(405)	(32,277)
Other reclassifications		-	-
Non-current assets and disposal groups of items held for sale		**-**	**-**
Share of other recognised income and expenditure of investments in joint ventures and associates		**-**	**-**
Income tax related to items that can be reclassified in profit or (-) loss	**40**	**27,849**	**10,468**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**57,464**	**92,502**
Attributable to minority interests (non-controlling interests)		-	-
Attributable to the owners of the parent company		57,464	92,502

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)

Notes 1 to 71 and Annexes I to IV are an integral part of the consolidated statement of recognised income and expenditure for the year ended 31 December 2019.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in thousands of euros)

As at 31 December 2019

Sources of changes to net worth	Capital	Other reserves	(-) Treasury stock	Profit/(loss) attributable to owners of the parent entity	(-) Dividends on account	Other cumulative global result	Minority interests	Total
Opening balance as at 1 January 2019	**741,461**	**858,321**	**(1,620)**	**124,173**	**(33,492)**	**(895)**	**-**	**1,687,948**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Opening balance as at 1 January 2019 (*)	**741,461**	**858,321**	**(1,620)**	**124,173**	**(33,492)**	**(895)**	**-**	**1,687,948**
Total comprehensive income for the year	**-**	**-**	**-**	**127,364**	**-**	**(69,900)**	**-**	**57,464**
Other changes in net worth	**18,147**	**55,072**	**(219)**	**(124,173)**	**(741)**	**-**	**-**	**(51,914)**
Issuance of ordinary shares	24,265	50	-	-	-	-	-	24,315
Issuance of preference shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(6,118)	(34)	-	-	-	-	-	(6,152)
Dividends (or remuneration paid to partners)	-	-	-	(23,711)	(34,233)	-	-	(57,944)
Purchase of treasury stock	-	-	(219)	-	-	-	-	(219)
Sale or cancellation of treasury stock	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-
Transfers between equity components	-	52,743	-	(86,235)	33,492	-	-	-
Increase or (-) decrease in net worth resulting from business combinations	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	2,313	-	(14,227)	-	-	-	(11,914)
Of which: discretionary allocation to community projects and welfare funds	-	-	-	*(14,227)*	-	-	-	*(14,227)*
Closing balance as at 31 December 2019	**759,608**	**913,393**	**(1,839)**	**127,364**	**(34,233)**	**(70,795)**	**-**	**1,693,498**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)

Notes 1 to 71 and Annexes I to IV are an integral part of the total statement of changes in consolidated net equity for the year ended 31 December 2019.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in thousands of euros)

<u>As at 31 December 2018 (**)</u>

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

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

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(Expressed in thousands of euros)

	Note	2019	2018 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**210,938**	**(253,226)**
Profit/(loss) for the year		**127,364**	**124,173**
Adjustments to obtain cash flows from operating activities		**74,699**	**65,552**
Amortisation	**60**	22,002	17,424
Other adjustments (a)		52,697	48,128
Net increase/decrease in operating assets		**(1,798,352)**	**(1,019,356)**
Financial assets held for trading		80,045	17,350
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss		11,253	39,338
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value with changes in other comprehensive income		(84,232)	(81,963)
Financial assets at amortised cost		(1,847,335)	(1,040,498)
Other operating assets		41,917	46,417
Net increase/decrease in operating liabilities		**1,808,469**	**577,183**
Financial liabilities held for trading		(678)	360
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		1,918,177	723,708
Other operating liabilities		(109,030)	(146,885)
Income tax receipts/payments		**(1,242)**	**(778)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**15,625**	**32,061**
Payments		**(17,531)**	**(21,115)**
Tangible assets	**30**	(17,198)	(21,115)
Intangible assets		-	-
Investments in joint ventures and associates		(333)	-
Subsidiaries and other business units	**28**	-	-
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Receipts		**33,156**	**53,176**
Tangible assets (b)	**30**	2,496	6,307
Intangible assets		-	1
Investments in joint ventures and associates	**28**	-	-
Subsidiaries and other business units	**28**	-	-
Non-current assets and liabilities classified as held for sale		30,660	46,868
Other receivables related to investment activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(54,227)**	**(53,734)**
Payments		**(54,797)**	**(56,839)**
Dividends	**38**	(34,233)	(33,492)
Subordinated liabilities		-	-
Amortisation of own equity instruments	**38**	(6,118)	(10,271)
Acquisition of own equity instruments	**38**	(219)	(189)
Other payments related to financing activities	**4**	(14,227)	(12,877)
Receipts		**570**	**3,105**
Subordinated liabilities		-	-
Issuance of own equity instruments	**38**	570	3,105
Disposal of own equity instruments		-	-
Other receivables related to financing activities		-	-
D) EFFECT OF EXCHANGE RATE CHANGES		**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**172,336**	**(274,899)**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,573,346**	**1,848,245**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,745,682**	**1,573,346**
PRO-MEMORIA			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**22**		
Of which: held by group entities but not available to the group		-	-
Cash		77,325	67,318
Balances of cash equivalents at central banks		1,624,987	1,395,458
Other financial assets		43,370	110,570
Less: Bank overdrafts refundable on demand		-	-

(*) It is presented solely and exclusively, for comparative purposes (Note 2.5)
(a) This includes mainly provisions for impairment and provisions that have not resulted in a cash outflow.
(b) These amounts include the profit or loss generated on sale.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in thousands of euros)

1. Nature of the Entity

Caja Laboral Popular Coop. de Crédito (hereinafter the Parent Entity, Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was formed on 2 November 2012 as a 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 aforementioned Parent Company is classified as a qualified cooperative.

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

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

1.1 Integration between Caja Laboral and Iparkutxa

In 2012, following the resolutions adopted by the governing bodies of Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S. Coop. de Crédito, the two entities were merged to create a new credit cooperative called "Caja Laboral Popular Coop. de Crédito", with the purpose, registered office, capital and other provisions set out in its Articles of Association and governed by Law 13/1989 of 26 May on Credit Cooperatives and other applicable legal provisions.

Under the terms of the merger, the two merged credit cooperatives were dissolved and extinguished without going into liquidation, with 2 November 2012 being the date on which this was entered in the Companies Register of Gipuzkoa and the date from which the operations of the merged entities were deemed to have been performed by the New Credit Cooperative for accounting purposes.

1.2 Articles of Association

The Articles of Association 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 members and third parties by carrying out the activities typical of a credit institution. To this end, it may carry out all types of lending, borrowing and service transactions which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Credit cooperatives are affected by legal regulations that govern, among other things, the requirements 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) Maintain a minimum level of capital that is determined by the investments made and the risks assumed.

Contribution to Inter-cooperative Cooperation Institutions

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

Caja Laboral is the Parent Entity of a Group of Investee Entities that comprise Caja Laboral Popular and its Investee Entities (hereinafter, the Group or Laboral Kutxa Group). As a result, the Parent Company is obliged to draw up, in addition to its own individual annual accounts, which are also subject to obligatory auditing, the Group's consolidated annual accounts which include, where applicable, the corresponding holdings in Subsidiary Companies and Jointly controlled Companies and the investments in Associated Companies. The entities comprising the Group carry out diverse business activities.

As at 31 December 2019, the total assets and equity of the Parent Entity represented 97,33%, 95,79% and 99,96%, respectively, of total Group assets and equity (as at 31 December 2018: 96,95%, 95,95% and 95,77%, respectively).

Below is a summary of the individual balance sheet, the individual profit and loss account, the individual recognised income and expenditure statement, the individual total changes in equity statement and the individual cash flow statement of the Parent Company corresponding to the years ended 31st December 2019 and 2018, prepared in accordance with the same accounting principles and standards and valuation criteria applicable to the individual annual accounts of the Parent Company.

(Expressed in thousands of euros)

a) Individual balance sheet as at 31 December 2019:

ASSETS	**2019**	**2018 (*)**
Cash, balances in cash with central banks and others		
Demand deposits	1,712,359	1,552,392
Financial assets held for trading	46,490	126,617
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	18,574	26,969
Financial assets at fair value with changes in other comprehensive income	741,839	640,278
Financial assets at amortised cost	20,770,842	18,848,602
Derivatives – hedge accounting	106,525	148,906
Investments in subsidiaries, joint ventures and associates	163,795	141,128
Tangible assets	324,749	297,989
Intangible assets	-	-
Tax assets	283,073	257,828
Other assets	54,353	43,356
Non-current assets and disposal groups of items that have been classified as held for sale	167,708	202,926
Total assets	24,390,307	22,286,991

LIABILITIES AND EQUITY	**2019**	**2018 (*)**
Financial liabilities held for trading	1,215	1,893
Financial liabilities at amortised cost	22,205,042	20,210,125
Derivatives – hedge accounting	255,198	158,166
Provisions	173,859	188,915
Tax liabilities	63,649	42,674
Share capital repayable on demand	-	-
Other liabilities	69,093	65,579
Total liabilities	22,768,056	20,667,352
Own Funds:	1,712,681	1,637,898
Capital	759,608	741,461
Other reserves	860,082	811,076
Profit/(loss) for the year	127,307	118,926
(Interim dividends)	(34,316)	(33,565)
Other accumulated comprehensive income	(90,430)	(18,259)
Total net worth	1,622,251	1,619,639
Total net worth and liabilities	24,390,307	22,286,991

PRO-MEMORIA		
Financial guarantees granted	218,394	106,394
Loan commitments granted	962,402	990,296
Other commitments granted	324,629	314,328

(*) Presented solely and exclusively for comparative purposes.

(Expressed in thousands of euros)

b) Individual profit and loss account for the year ended 31 December 2019:

	2019	2018 (*)
Interest income	**269,073**	262,421
(Interest expenses)	33,203	33,005
Interest margin	235,870	229,416
Dividend income	21,112	17,361
Fee and commission income	103,616	101,101
(Fee and commission expenses)	6,127	6,634
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	66	25,597
Profit or (-) loss on financial assets and liabilities held for trading, net	426	227
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	2,142	(1,951)
Profit or (-) loss from hedge accounting, net	(62)	(15,947)
Exchange rate differences [profit or (-) loss], net	501	543
Other operating income	41,585	39,960
(Other operating costs)	44,086	41,316
Gross margin	355,043	348,357
(Administration costs)	179,385	183,686
(Amortisation)	21,339	16,896
(Provisions or (-) reversal of provisions)	15,796	21,375
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit and loss or (-) net gains from modification)	(8,064)	15,554
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures or associates)	(5,012)	(15,330)
(Impairment or (-) reversal of impairment of non-financial assets)	1,440	77
Profit or (-) loss on derecognition of non-financial assets and shares, net	(738)	306
Profit or (-) loss from non-current assets and disposal groups of items classified as held for sale and not eligible as discontinued operations	(10,425)	3,939
Profit or (-) loss before tax from continuing activities	138,996	130,344
(Expenditure or (-) income from tax on earnings from continuing activities)	11,689	11,418
Profit or (-) loss after tax from continuing activities	127,307	118,926
Profit or (-) loss after tax from discontinued activities	-	-
Profit/(loss) for the year	127,307	118,926

(*) Presented solely and exclusively for comparative purposes.

(Expressed in thousands of euros)

c) Individual statement of recognised income and expenditure for the year ended 31 December 2019:

	2019	2018 (*)
PROFIT/(LOSS) FOR THE YEAR	**127,307**	**118,926**
OTHER COMPREHENSIVE INCOME	**(72,171)**	**(26,234)**
Items that will not be reclassified to profit or loss	**929**	**(4,749)**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	1,290	(6,596)
Income tax related to items that will not be reclassified	(361)	1,847
Items that may be reclassified to profit or loss	**(73,100)**	**(21,485)**
Cash flow hedges (effective portion)	**(150,249)**	**945**
Profit or (-) loss of value recorded in net equity	(150,249)	945
Debt instruments at fair value with changes in other comprehensive income	**48,721**	**(30,785)**
Profit or (-) loss of value recorded in net equity	48,388	1,353
Transferred to profit and loss	333	(32,138)
Other reclassifications		
Income tax related to items that can be reclassified in profit or (-) loss	**28,428**	**8,355**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**55,136**	**92,692**

(*) Presented solely and exclusively for comparative purposes.

d) Total statement of changes in individual equity for the year ended 31 December 2019

Changes during the 2019 financial year

	Own funds	Other accumulated comprehensive income	Total net worth
Opening balance as at 1 January 2019	**1,637,898**	**(18,259)**	**1,619,639**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance as at 1 January 2019	**1,637,898**	**(18,259)**	**1,619,639**
Total comprehensive income for the year	**127,307**	**(72,171)**	**55,136**
Other changes in net worth			
- Issuance of ordinary shares	24,315	-	24,315
- Capital reduction	(6,152)	-	(6,152)
- Dividends (or remuneration paid to partners)	(58,027)	-	(58,027)
- Transfers between components of equity	-	-	-
- Other increases or (-) decreases in equity	(12,660)	-	(12,660)
Total other changes in net worth	**(52,524)**	**-**	**(52,524)**
Closing balance as at 31 December 2019	**1,712,681**	**(90,430)**	**1,622,251**

(Expressed in thousands of euros)

Changes during 2018 (*)

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

(*) Presented solely and exclusively for comparative purposes.

e) Individual cash flow statement for the year ended 31 December 2019:

	2019	2018 (*)
Cash flows from operating activities:	**210,561**	**(280,693)**
Profit/(loss) for the year	127,307	118,926
Adjustments made to obtain cash flows from operating activities	76,125	70,815
Net Increase/Decrease in operating assets	(1,838,006)	(1,024,755)
Net Increase/ Decrease in operating liabilities	1,846,377	555,099
Income Tax Receipts/(Payments)	(1,242)	(778)
Cash flows from investing activities	**3,497**	**64,427**
Payments	(67,438)	(27,106)
Receipts	70,935	91,533
Cash flows from financing activities	**(54,091)**	**(53,618)**
Effect of exchange rate changes	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**159,967**	**(269,884)**
Cash and cash equivalents at the beginning of the year	**1,552,392**	**1,822,276**
Cash and cash equivalents at the end of the year	**1,712,359**	**1,552,392**

(*) Presented solely and exclusively for comparative purposes.

2. Basis for presentation of the consolidated annual accounts

2.1 True picture

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

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

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

The consolidated annual accounts were prepared taking into account all of the accounting principles and standards 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 as at 31 December 2019 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 important accounting principles and policies and the valuation criteria applied in the preparation of the consolidated annual accounts of the Group for 2019.

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 2019 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 make these principles and criteria consistent with each other and to bring them into line with the EU-IFRS applied by the Entity.

The information contained in these consolidated annual accounts is the responsibility of the Directors of the Parent Entity of the Group.

The Group's consolidated annual accounts for 2019 were prepared by the directors of the Group's Parent Company at the meeting of the Governing Board held on 28 February 2020, and are pending approval by the General Assembly of the Group, which is expected to approve them without any material changes.

Unless otherwise stated, these consolidated annual accounts are expressed in thousands of euros.

2.2 Consolidation principles

The Group has been defined in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Subsidiaries, Joint Ventures and Associates are all investees.

2.2.1) Subsidiaries

“Subsidiaries" are defined as entities over which the Group has control, a situation that arises when the Group is exposed, or is entitled to, variable income from its involvement in the investee and has the ability to influence such income through its power over the investee.

For control to exist, the following must be applicable:

- Power: An investor has power over an investee when it has rights in force that provide it with the ability to control the related activities, i.e. those that significantly affect the investee's earnings.

- Earnings: An investor is exposed, or is entitled to, variable income from its involvement in the investee when the returns it obtains from such involvement can vary depending on the financial performance of the investee. The returns may be only positive, only negative or both positive and negative.

- Relationship between power and earnings: 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 has the ability to use its power to influence the earnings 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).

Relevant information on holdings in subsidiary entities as at 31 December 2019 and 2018 are shown in Annex I.

The annual accounts of the subsidiaries are consolidated with those of the Entity by applying the full integration 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 Group's equity is presented under "Minority Interests (non-controlling interests)" of equity in the consolidated balance sheet.

- The consolidated profit for the year is presented under the heading “Profit/(loss) for the year – Attributable to minority interests (non-controlling interests)” in the consolidated profit & loss account.

The consolidated profit or loss of the subsidiaries acquired by the Group during the year is only taken into account for the period between the date of acquisition and the year-end. Also, the consolidated profit or loss generated by the subsidiaries sold by the Group during the year is only taken into account for the period between the beginning of the year and the date of sale.

Inter-company transactions, balances and income and expenditure on transactions between Group entities are eliminated. Profits and losses arising from intra-group transactions that are recognised as assets are also eliminated. The accounting policies of subsidiaries have been modified when necessary to ensure uniformity with the policies adopted by the Group.

In addition to the subsidiaries, the Parent Entity has included, through full consolidation, the securitisation funds “I.M. Caja Laboral 1, F.T.A.” and “I.M. Caja Laboral 2, F.T.A.”, entities established for the securitisation of mortgage loans and the later issue of securitisation bonds (see Note 2.2.6).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary corresponds to the fair value of the assets transferred, the liabilities incurred with the previous owners of the entity and the shares in equity issued by the Group. 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 value at the acquisition date. For each business combination, the Group may elect to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

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

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 9 either in profit and loss or as a change in equity. A contingent consideration that is classified as equity is not remeasured and its subsequent settlement is recorded in equity.

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

The Group's insurance companies are subject to supervision and regulation by various bodies. The laws in force in the various jurisdictions together with the need to comply with minimum capital requirements and supervisory activity are circumstances that could affect the ability of such entities to transfer funds in the form of cash, dividends, loans or advances.

2.2.2) Changes in ownership interests in subsidiaries without a change in control

Transactions with non-controlling interests that do not result in a loss of control are recorded as equity transactions - i.e. transactions with the owners in their capacity as such. The difference between the fair value of the consideration paid and the corresponding proportion acquired of the carrying amount of the subsidiary's net assets is recognised in equity. Gains or losses on the disposal of non-controlling interests are also recognised in equity.

2.2.3) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured at its fair value at the date when control is lost and the change in the book value is recognised in profit or loss. The fair value is the initial book value for the purpose of later recognition of the retained interest as an associate, joint venture or financial asset. In addition, any amount previously recognised in accumulated other comprehensive income in equity in relation to that entity is accounted for as if the Group had sold the related assets or liabilities directly. This could mean that the amounts previously recognised in equity are reclassified to the consolidated profit and loss account.

2.2.4) Joint ventures – Jointly controlled Entities

A joint venture is a contractual arrangement whereby two or more entities, referred to as participants, 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, and in which the unanimous consent of all participants, which share control and have rights to its net assets, is required for taking decisions on relevant activities.

Also, "Joint ventures" are investments in entities which, although not subsidiaries, are jointly controlled by two or more unrelated entities, including the Group.

The equity method was applied in the consolidation process for the annual accounts of Joint Ventures - Jointly controlled Entities, in accordance with the provisions of accounting regulations.

As at 31 December 2019 and 2018 there were no investments in Jointly controlled Entities.

2.2.5) Associated entities

Associates are defined as investees over which the Group is in a position to exercise significant influence. Such significant influence is generally, but not exclusively, the result of holding an interest, either directly or indirectly through one or more other investees, of 20% or more of the investee's voting rights.

In the consolidation process the equity method was applied for associates, as defined in IAS 28. Consequently, the investments in associates were measured at the fraction represented by the Group's ownership interest in their capital, after taking into account the dividends received from them and other equity eliminations. The results of transactions with an associate are eliminated to the extent of the Group's interest. If, as a result of losses incurred by an associate, its equity becomes negative, it is recognised in the Group's consolidated balance sheet with a zero value, unless the Group has an obligation to provide financial support.

The relevant information of holdings in Associated Entities as at 31 December 2019 and 2018 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 2019 and 2018 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 unify the accounting principles and norms and the valuation criteria.

As at 31 December 2019 and 2018, no entity in the Group held an interest in the capital of other credit entities, national or foreign, equal to 5% or more of their capital or voting rights.

In addition, as at 31 December 2019 and 2018, 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, consideration is given to whether the Group earns success fees and the possibility of revoking the managers of the underlying assets. These entities include the "Asset Securitisation Funds " which are consolidated in those cases where, based on the above analysis, it is determined that the Group has maintained control.

As at 31 December 2019 and 2018, the contractual financial support agreements for consolidated structured entities corresponded to the support mechanisms commonly used in the securitisation market and there were no significant financial support agreements in addition to those established contractually. Note 25 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 subsidiaries.

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 profit and loss account (Note 48) 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 2019

During 2019, the affiliated company ICR Institutional Investment Management SGIIC, S.A. was dissolved and liquidated in accordance with the provisions of Article 38 of the Spanish Companies Act, which did not have a significant impact on the consolidated financial statements as at 31 December 2019.

Also, on 20 December 2019, the Group's parent company, Caja Laboral Popular, Coop. de Crédito, acquired holdings in the company Ategi Green Power, S.L. for €333 thousand, representing 28.57% of the capital of the new associated entity (see Annex I).

2.3 Entry into force of IFRS 9 - Financial instruments

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

The impact of the adoption of this standard was significant, which is why the provisions of IAS 8 "Accounting policies, changes in accounting estimates and errors" and the transitional provisions for applying the standard were considered (See section 2.5 "Comparability of information").

The main elements of this standard were as follows:

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

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

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

  In accordance with this methodology, the operations, after their initial recognition, are classified as "Stage 1" and expected losses are recognised in the following 12 months. If there is a significant increase in the risk of default with respect to the risk existing at the time of the initial recognition of the transaction, or if a different series of qualitative factors are identified (defaults of more than 30 days or refinancing/restructuring of operations) the operations are classified as "Stage 2", recognising expected losses for the term corresponding to the residual maturity of the operation, taking into account any extension options that may be exercised. Lastly, when the operations are impaired or have a default of more than 90 days, that is, those in which part of the investment is not expected to be recovered taking into account the time value of the money, they are classified as "Stage 3", recognising the expected loss at the residual maturity of the operations. Similarly, in impaired operations, interest is recognised based on its book value net of provisions rather than the gross amount before provisions.

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

In 2017 the Group developed an adjustment project supervised by the Governing Board that encompassed the following areas for the first application of the standard on 1 January 2018:

a) Classification and valuation of financial instruments

The business models existing in the Group were evaluated and identified and the instruments were classified according to these business models and in compliance with the conditions "payment of principal and interest only" (SPPI test).

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

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

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

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

- The "Financial assets held for trading" portfolio remained unchanged, classified as fair value with changes in profit and loss.

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

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

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

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

c) Hedge accounting

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

d) Other impacts

It should also be noted that the accounting regime of foreclosed real estate remained substantially unchanged, although some clarifications were introduced. On the one hand, it stresses that foreclosed assets must be measured on the basis of current market conditions, without taking into account possible future revaluations and, on the other hand, it includes in an integrated manner the criteria for classifying foreclosed properties, maintaining the criterion of preference for their recognition as non-current assets held for sale, taking into account the usual purpose of sale in the shortest possible time by credit institutions, as opposed to other possible purposes of continued use less typical of their normal activity. Similarly, the hedging percentages defined by the Bank of Spain were increased, based on its experience and the information it has of the Spanish banking sector and forecasts of future conditions, percentages which the Bank opted to apply. The Entity estimated the impact of the new impairment criteria on outstanding operations as at 1 January 2018.

Lastly, the main qualitative impacts that the Group had as a result of the retroactive application of the standard to the outstanding contracts as at 1 January 2018 were the following:

- *Credit commissions that are an integral part of the performance or effective cost of such operations*: Under IFRS 9, these charges had to be deferred and recognised in the profit and loss account throughout the life of the transaction, replacing the previous criterion in IAS 39, under which the direct costs related to the services could be charged at the time of inception of the transaction. The Group estimated the impact of the full deferral of the aforementioned previously allocated direct costs on the transactions outstanding as at 1 January 2018.

The application of IFRS 9 had a negative impact on the Fully loaded CET1 ratio of the consolidated Group of around minus 93 basis points. See details regarding the impact of the adoption of Circular 4/2017 in Annex III.

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

2.4 Entry into force of IFRS 16, leases

IFRS 16 (effective for the annual periods beginning as of 1 January 2019, with the option of early adoption, which the Group had used in 2018) establishes the principles for recognition , valuation, presentation and detail of lease contracts, with the aim of ensuring that both lessee and lessor provide relevant information that presents a true picture of such operations.

The main change introduced by IFRS 16 is a single accounting model for leases for lessees, requiring them to recognise the assets and liabilities of all leases with a duration greater than 12 months, unless the underlying asset is low value or intangible. The main change arises from the lessee's obligation to recognise a right of use asset, representing their right to use the underlying leased asset, and a lease liability, representing their present value obligation to make lease payments. While the asset will be amortised over the life of the contract, the liability will generate a financial expense.

The most important aspects of the transition to this Standard, the implementation plan followed by the Group and the main impacts it has had are described below:

- The Group has applied IFRS 16 retrospectively with the cumulative effect of the initial application of the Standard recognised at the date of initial application (1 January 2019), and without restatement of comparative information (Note 2.5).

- The Group has applied the practical solution allowed by the Standard of not assessing on first application whether the contracts represent a lease under the new definition, and has therefore applied IFRS 16 to contracts that were previously identified as leases under IAS 17. The main assets affected are premises and offices for rent.

- The Group recognised a lease liability of €34,544 thousand at the date of initial application for leases previously classified as an operating lease using IAS 17. The Group measures that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental loan rate on the date of the initial application, i.e. 2.5%. This is the best estimate that can be made of the marginal cost of financing at the beginning of the contract for unsecured financing with a similar term.

- The Group recognised an asset for the right of use, valued at €34,544 thousand at the date of initial application for leases previously classified as an operating lease using IAS 17. Among the options permitted by the Standard, the Group chose to measure the right-of-use asset of all affected contracts at an amount equal to the lease liability (asset equalisation method).

- The impact of the first application of IFRS 16 was quantified at less than 7.42 basis points in the Group's Fully Loaded CET1 ratio as at 1 January 2019.

The accounting principles and valuation standards adopted by the Group after the entry into force of IFRS 16, with respect to the accounting for leases from the lessee's point of view, are as follows:

- Lease term: the duration of the lease is equal to the non-cancellable period of a lease, plus the periods covered by the option to extend the lease if it is reasonably certain that the lessee will exercise this option and any periods covered by the option to terminate the lease if it is reasonably certain that the lessee will not exercise this option. In this regard, the Group applies the following criteria:

- If the contract has a foreseen cancellation date that is different from that of the contract, this date is applied as the date of cancellation of the right of use.
- If the contract expiry date is less than 50 years, the contract date is applied.
- If the expiry date of the property lease is greater than 50 years, the expiry is limited to 50 years, coinciding with the shortest period of real estate amortisation applied by the entity.
- For leases with a duration of less than 1 year, it will not be activated and it will continue to be recorded through the profit and loss statement, since there is a high probability that the contract will be cancelled and renegotiated, resulting in a new contract with new conditions. .

- General recognition criteria: assets and liabilities arising from leasing contracts are recognised at the lease start date, which is the date on which the lessor makes the leased asset available to the lessee for use.

- Initial valuation of the lease liability: At the start date of the contract, the Group recognises a lease liability for the value of the lease payments not paid at that date.

  The discount rate used to calculate the value of these payments is based on the interest rate that the lessee would have to pay to borrow, for a similar term and with similar security, the funds necessary to obtain a property with a similar value to the asset for right of use in a similar economic environment (additional financing rate).

- Initial valuation of the asset by right of use: At the contract start date, the Group recognises a right-of-use asset measured at cost, including:

  a) The amount of the initial valuation of the lease liability, as described above.

  b) Any lease payment made on or before the start date, less any collection received from the lessor (such as incentives received for the signing of the contract).

  c) The initial direct costs borne by the lessee. These include, but are not limited to, those costs directly related to the location of a tangible asset in the place and under the conditions necessary for the lessee to be able to exploit it.

  d) Costs that are estimated to be incurred in the dismantling and removal of the leased asset, in the restoration of the site or in the return of the asset in the condition required by the contract, unless such costs are incurred for the production of stock. These costs are recognised as part of the cost of the right-of-use asset when the Group acquires the obligation to bear them.

  The right-of-use assets, for the purposes of their presentation, are classified as tangible or intangible assets depending on the nature of the leased asset.

- Subsequent valuation of the lease liability. After its initial recognition, the Group values the lease liability in order to:

  a) Increase its book value reflecting accrued interest, which is calculated by applying the interest rate used in the initial valuation to the balance of the liability.

  b) Reduce its book value reflecting the lease payments made.

  c) Reflect the update of: (i) the duration of the lease as a result of a change in the assessment of the possibility of exercising options to extend or terminate the lease, (ii) the duration of the lease and lease payments as a result of a change in the assessment of the possibility of exercising the option to purchase the leased asset, (iii) lease payments as a result of a change in the assessment of amounts expected to be paid under the residual value guarantee, (iv) amounts of future variable lease payments dependent on an index or rate, as a result of a change in such index or rate. In the cases referred to in points (i) and (ii), as the update has occurred within the term of the lease, the revised payments will be discounted at the discount rate used in the initial valuation unless the variation in payments is due to a change in variable interest rates, in which case a revised discount rate will be used that reflects changes in the interest rate. The Group reviews the duration of the lease with regard to the amounts expected to be paid for residual value guarantees when a significant event or change occurs in terms of the exercise of the options contemplated in the contract. In the same way, the Group reviews the payments referenced at a certain index or rate when, in accordance with the contractual conditions, the amounts of these payments have to be updated.

d) Reflect any modification of the lease.

e) Reflect lease payments that were not considered unavoidable, such as those due to events, the occurrence of which was previously uncertain but which at the reference date are considered to be essentially fixed because they are unavoidable.

Variable lease payments not included in the valuation of the lease liability will be recognised in the profit and loss account for the year in which the event or the circumstance that gives rise to said payments occurs.

Subsequent valuation of the right of use asset: after its initial recognition, the Group values the right of use asset at cost:

a) Minus its accumulated depreciation and any accumulated impairment loss. If ownership of the leased asset is transferred at the end of the contract or if the initial valuation of the cost of the right of use asset reflects that the lessee will exercise the purchase option, the right of use asset is amortised over the useful life of the leased asset . In other cases, it is depreciated over the shorter of the useful life of the asset or the term of the lease.

b) Adjusted to reflect changes in the current value of lease payments that should be made in accordance with the above.

- Simplified treatment for recognition and valuation: the Group records the following lease payments as expenses:

  a) Short-term leases (understood as those which on the start date have a duration equal to or less than twelve months), provided they do not include a purchase option.

  b) Leases in which the leased asset is of little value, provided that the asset can be used without relying heavily on other assets (or being closely related to them) and that the lessee can obtain benefits by using the asset individually (or together with other easily accessible resources). The value of the leased asset is calculated in absolute terms based on its value in its new state.

  In both cases, its allocation to the profit and loss account is made in a linear manner over the period of the lease.

- Lease modification: the Group records a modification of a separately recorded lease as a new lease if the modification extends the scope of the contract (by adding one or more leased assets) in exchange for an increase in remuneration by an amount similar to the specific price that would be paid if a separate lease contract were to be entered into for the assets added to the contract.

  If these requirements are met, on the date the parties agree to the modification, the Group: (a) distributes the amended contract remuneration between the lease components and the other components, (b) determines the duration of the amended lease, (c) reappraises the lease liability, discounting the revised lease payments using a revised discount rate, determined for the remainder of the lease period and at the date of the amendment, and (d) records the revised valuation of the lease liability.

2.5 Comparative information

In July 2014, the IASB published IFRS 9, which, together with subsequent amendments, was adopted by the Group in accordance with the standard dated 1 January 2018. As the standard allows, the Group had chosen not to re-declare the comparative financial statements at the end of the 2018 financial year (see detail in Note 2.3).

With regard to the changes in accounting criteria at 1 January 2019, and in accordance with the provisions of IFRS 16, the Group has not reissued the comparative financial statements, as the comparative information for the period ended 31 December 2018 has not been rewritten under the new accounting criteria, and therefore is not comparative. Note 2.4 includes information on the most relevant aspects of the transition to this Standard, the implementation plan followed by the Group and the main impacts it has had as at 1 January 2019.

The accounting information prepared in accordance with the criteria of the International Financial Reporting Standards, adopted by the European Union, for the year ended 31 December 2019 is presented in all cases, for comparison purposes, with reference to the figures for 2018. The information relating to 2018 is presented solely for the purposes of comparison with 2019 and does not form part of the Group's consolidated annual accounts for 2019.

2.6 Seasonality of transactions

Given the Group's business activities, its transactions are not of a cyclical or seasonal nature. For this reason, specific breakdowns are not included in the annual consolidated annual accounts for 2019.

3. Changes and errors in accounting policies and estimates

a) Critical aspects of the assessment and estimation of uncertainty

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:

- Modifications of business models under which financial assets are managed (Note 13.e)
- The impairment losses on certain financial assets (Note 13.h).
- The estimated value and useful life, applied to the elements of Tangible Assets and Intangible Assets (Notes 2, 13.q and 13.r).

- The fair value of certain financial assets not listed on regulated markets (Note 13.e).
- The cost and anticipated development of provisions and contingent liabilities (Note 13.u).
- Assumptions used to calculate insurance liabilities (Note 13.t).
- The actuarial assumptions used to calculate post-employment benefit liabilities and commitments (Note 13.o)
- The assessment of the ability to utilise the tax credits recognised (Note 13.p).
- The valuation of consolidated goodwill (Note 13.aa).
- The estimated calculation of Corporate Income Tax (Note 40).

Since these estimates have been made on the basis of the best information available as at 31 December 2019 on the items affected, it is possible that events that take place in the future will make it necessary to modify them in some way in the coming years. Any such change will be made prospectively, recognising the effects of the change in estimate in the related consolidated profit and loss account.

b) Changes in accounting criteria

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

- It is not practicable to determine the effects in each specific year of changing an accounting policy with respect to comparative information in a previous year, in which case the new accounting policy is applied at the beginning of the earliest year for which retrospective application is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current year, of applying a new accounting policy to all prior years, the new accounting policy is applied prospectively, from the earliest date practicable or

- The accounting rule or regulation that modifies or establishes the criterion sets the time from which it should be applied.

During 2019 there have been changes in the accounting regulations applicable to the Group compared with those applied last year. The following is a list of the changes that might be considered most important:

i) Standards, amendments and interpretations that are mandatory for all financial years beginning on 1 January 2019

- IFRS 16 “Leases”

  In January 2016, the IASB published this new standard, which was the result of a joint project with the FASB and 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 profit and loss account and in the cash flow statement.

This standard is applicable to financial years starting on or after 1 January 2019, although early application is permitted.

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

- IFRIC 23, "Uncertainty in the treatment of corporate income tax"

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

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

  The application of these regulations has not had a significant impact on these consolidated annual accounts of the Group.

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

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

  The application of these regulations has not had a significant impact on these consolidated annual accounts of the Group.

- IFRS 9 (Amendment) "Advance payment component with negative compensation”

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

  The application of these regulations has not had a significant impact on these consolidated annual accounts of the Group.

- Annual Improvements in the IFRS. Cycle 2015 – 2017

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

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

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

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

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

- IAS 19 (Amendment) "Modification, reduction or liquidation of the plan"

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

The application of these regulations has not had a significant impact on these consolidated financial statements of the Group

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

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

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

- The "overlap approach": will provide all companies that issue insurance contracts with the option of recognising the volatility that may arise when IFRS 9 "Financial instruments" is applied before the new insurance contract standard is published in other comprehensive income rather than in the year's profit or loss.

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 "overlap approach" are expected to cease to apply when the new insurance standard comes into force.

In accordance with the provisions of the amendments to IFRS 4, the deferral of the application of IFRS 9 is permitted for insurers that are part of a financial conglomerate as defined in Article 2, paragraph 14, of Directive 2002/87/EC, in the event of meeting the conditions established by Article 2 of EU Regulation 2017/1988.

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

ii) Standards, amendments and interpretations that have not yet entered into force, but can be adopted in advance.

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

- Modifications to the Conceptual Framework of IFRS: the Conceptual Framework of IFRS establishes the fundamental concepts applied in the development of new standards and helps to ensure that they are consistent and that similar transactions are recorded in the same way, with the aim of providing useful information to users. The revised Conceptual Framework entered into force in March 2018 and, among other aspects, reintroduced the concept of prudence, modified the definitions of assets and liabilities, incorporated clarifications regarding the registration and derecognition of assets and liabilities, and regarding the mediation of the elements of the financial statements, and placed the profit and loss balance as the key indicator of an entity's performance. In addition, the IASB published the document "Amendments to references to the Conceptual Framework". These amendments are applicable as of 1 January 2020, and their early application is allowed.

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

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

  They shall be applied for annual periods beginning on or after 1 January 2020, although earlier application is permitted.

- IFRS 7 (Amendment), IFRS 9 (Amendment) and IAS 39 (Amendment) "Interest Rate Benchmark Reform"

  The amendments establish temporary and limited exceptions to the hedge accounting requirements of IAS 39 and IFRS 9, so the Group can continue to meet the requirements, based on the assumption that the existing interest rate benchmarks do not suffer alterations due to the reform of the type of interbank offer.

  They shall be applied for annual periods beginning on or after 1 January 2020, although earlier application is permitted.

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 associates or joint ventures"

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

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

- IFRS 17 "Insurance contracts"

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

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

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

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

  These changes will help to determine whether it is a business acquisition or a group of assets. The modified definition emphasises that the product of a business is to provide goods and services to customers, while the previous definition focused on providing returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to modifying the wording of the definition, additional guidance has been provided. To be considered a business, an acquisition would have to include an input and a process that together contribute significantly to the ability to create products. The new guide provides a framework to assess when both elements are present (even for early stage companies that have not generated products). To be a business without results, it will now be necessary to have an organised workforce.

  These amendments will apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions occurring on or after the beginning of that period. Early application is allowed.

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

c) Errors and changes in accounting estimates

Accounting errors

Errors in the preparation of consolidated annual accounts arising in previous years are the result of omissions or inaccuracies caused by failures to use reliable information, which was available when the consolidated annual accounts for such periods were prepared and which the Parent Company should have used in the preparation of said consolidated statements.

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

- by restatement of the amounts of the items in the various consolidated financial statements affected by the error, including the notes to the consolidated financial statements, published in the consolidated annual accounts for comparison purposes, for the year as well as for subsequent years, in which it occurred and, if appropriate,

- by restatement of the consolidated opening balance sheet for the earliest period presented, if the error occurred prior to the first consolidated financial statements presented for comparison purposes.

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 earliest years are restated, where such restatement is practicable. 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 previous years that affect the consolidated equity are corrected in the year they are discovered using the appropriate consolidated equity account. Under no circumstances may previous years' errors be corrected using the consolidated profit and loss account for the year in which they are discovered, unless they are immaterial or it is impracticable to determine the effect of the error, as described in the preceding paragraph.

Changes in accounting estimates

A change in an accounting estimate is an adjustment to the book value of an asset or liability, or to the periodic consumption of an asset, that results from an assessment of the present condition of the item and the expected future benefits and obligations associated with the related assets and liabilities.

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 profit and loss statement for the year or for the year and future years affected by the change.

In 2019 and 2018 there were no corrections of errors of a significant nature corresponding to previous years. Similarly, there were no significant changes in accounting estimates that affected these years or that may affect future years, other than those specified in notes 2.3 and 2.4.

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 allocated 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 return among the partners.
- Allocation to the Voluntary Reserve Fund

The Parent Entity's Articles of Association establish that the available surplus, once the obligations that could conceivably result from hedging the mandatory capital or the solvency ratio have been fulfilled, will be allocated as follows:

- A minimum of 50% to the Mandatory Reserve Fund.
- A maximum of 25% to cover development and inter-cooperative needs. Specifically, a minimum of 10% will be allocated to the Education and Promotion Fund and a maximum of 15% to the Inter-cooperative Welfare Fund.
- The rest will be available to the General Assembly, which may distribute it as follows: return to partners or provision to voluntary or analogous Reserve Funds.

The amount earmarked for cooperative returns shall be distributed equally between working partners and other partners.

(Expressed in thousands of euros)

In accordance with the articles of association of the Parent Company, the return to partners will be credited to working partners in proportion to their work advances and to the remaining partners in proportion to the operations carried out with the Parent Company.

The proposed distribution of the Parent Entity's surplus for 2019 which the Governing Board of the Parent Entity will submit for the approval of the General Assembly, and that approved for 2018, is as follows:

	2019	2018
Distribution:		
- Gross interest, distributed on account of the application of the gross surplus for the year paid on share capital contributions		
Share capital	34,316	33,565
- Mandatory Reserve Fund	51,662	47,423
- Education and Development Fund (*)	-	-
- Cooperative Returns	25,831	23,711
- Inter-cooperative Welfare Fund	15,498	14,227
Profit/(loss) for the year	127,307	118,926

(*) The amount allocated to the Education and Development Fund corresponds to the minimum mandatory sum of €10,332 thousand in 2019 and €9,485 thousand in 2018 (Note 56).

5. Information by business segment

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

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

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

a. Segmentation criteria

- Segmentation by business

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

- Retail Banking
- Insurance Business

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

(Expressed in thousands of euros)

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

Notwithstanding the above, the decisions of the Group's different businesses are taken in the control environment that their membership of the Laboral Kutxa Group implies.

- Geographical segmentation

The Group operates through a network of 304 branch offices, as at 31 December 2019, with 184 located in the Autonomous Community of the Basque Country, 40 in Navarra and 80 in the rest of Spain (309 branches as at 31 December 2018, 187 in the Autonomous Community of the Basque Country, 40 in Navarra and 82 in the rest of Spain).

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

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

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

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

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

c. Segmentation by business

The main contributions to the consolidated balance sheet and consolidated profit and loss account, disregarding the effect of transactions with group entities, for 2019 and 2018, are shown below:

	2019		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated profit and loss account:			
Contribution to gross margin	357,500	37,474	394,974
Administration costs	196,482	22,385	218,867
Profit/(loss) for the year	115,433	11,931	127,364
Consolidated balance sheet:			
Total assets	24,252,196	806,224	25,058,420

(Expressed in thousands of euros)

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

6. Minimum ratios

6.1 Minimum equity ratios

The Basel Committee on Banking Supervision leads the way in harmonising international financial regulation. Through agreements reached by this Committee, an initial regulation was drawn up for credit institutions, setting a minimum capital of 8% on the total of their risks (Basel I, 1988). Subsequently, in 2004, Basel II improved the sensitivity of risk assessment mechanisms and provided two new pillars: the self-assessment of capital and risks 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, in the Official Journal of the European Communities, applicable from 1 January 2014.

In order to adapt the national legal system to the regulatory changes imposed at international level, Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions was approved, continuing the implementation initiated by Royal Decree-Law 14/2013 of 29 November and Bank of Spain Circular 2/2014, which establishes the regulatory options for requirements applicable during the transitional period. The minimum capital requirements established in current regulations (Pillar I) are 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 organization, supervision and solvency of credit institutions, completes the regulatory development of said Law and brings together in a single text all the organizational and disciplinary regulatory standards for credit institutions that had been issued prior to its enactment.

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

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

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

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

Lastly, in 2019 the Bank of Spain published Circular 3/2019 dated 22 October, exercising the power conferred by EU Regulation 557/2013, in order to define the threshold of significance of matured obligations, applicable as of December 2020.

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

In this respect, the Parent Entity received a notification from the Bank of Spain concerning the decision on the minimal prudential requirements applicable to the Entity, whereby Laboral Kutxa must maintain a Common Equity Tier 1 (CET 1) ratio of 8,38% measured on regulatory capital. This requirement includes the minimum required by Pillar 1 and the Pillar 2 requirement, including a capital conservation buffer. Similarly, based on the 8% requirement of Pillar 1, the minimum requirements for Total Capital is 11.88%.

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

The strategic objectives set by the Management of the Group's Parent Company in relation to the management of its own resources are as follows:

- To comply at all times with prevailing applicable minimum capital requirements at both 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:

- The Group has a monitoring and control unit that reports to the Entity's Risk Department and analyses the levels of compliance with the Bank of Spain's regulations on equity.

(Expressed in thousands of euros)

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

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

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

	2019	2018
Common Equity Tier 1 (CET1)		
Capital	759,601	741,454
Qualifying results	77,550	76,381
Reserves	913,393	858,321
Valuation adjustments	(70,794)	(895)
(-) Other deductions	(62,189)	(61,829)
(-) CET1 adjustments due to prudential filters	114,075	18,513
	1,731,636	1,631,945
Additional CET 1		
Qualifying equity instruments	-	-
	-	-
Common Equity Tier 2		
Equity instruments and subordinated loans	-	-
Supplementary hedging for credit risks using the standard method	-	-
Valuation adjustments	-	-
Education and Development Fund	-	-
(-) Transitional adjustments	-	-
	-	-
Other items and deductions	-	-
Total eligible equity	1,731,636	1,631,945
Total minimum equity	686,912	696,041
Risk weighted assets	8,586,398	8,700,515

As at 31 December 2019 and 2018, the most important data on the Group's minimum equity are as follows:

	2019	2018
CET 1 ratio	20.17%	18.76%
Tier 1 capital ratio	20.17%	18.76%
Total capital ratio	20.17%	18.76%

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

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

6.2 Minimum reserve ratios

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

(Expressed in thousands of euros)

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

As at 31 December 2019 and 2018, as well as throughout 2019 and 2018, the Parent Entity complied with the minimum requirements for this ratio by the regulations applicable at any given time.

The amount of cash held by the Parent Entity in the Bank of Spain account for these purposes amounted to 1,624,987 thousand euros as at 31 December 2019 (1,395,458 thousand euros as at 31 December 2018) (Note 22), although the obligation to maintain the balance required by the applicable legislation in order to comply with the aforementioned minimum reserve ratio is calculated on the basis of the average of the end of day balances held on this account during the maintained period.

7. Remuneration for the Directors and the Senior Management of the Parent Entity

a) Statutory payments

The working partners have not received any fixed or variable remuneration for their involvement in the Governing Board, irrespective of the compensation received for their “usual” work in the Entity. Similarly, the other members of the Governing Board have not received any remuneration for their membership of the Board .

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 Board are as follows:

	Remuneration short-term and subsistence allowance	
	2019	**2018**
Chairman of the Governing Board	167	166
	167	166

(Expressed in thousands of euros)

b) Other Governing Board and Senior Management remuneration

The payments accrued by the 4 working partners who were members of the Governing Board as at 31 December 2019 (4 working partners as at 31 December 2018) for the performance of their duties were as follows:

	Remuneration short-term and subsistence allowance	
	2019	**2018**
Members of the Governing Board	261	257
	261	257

Also, 9 people have been considered as Senior Management personnel of the Entity, who are members of the Board of Directors as at 31 December 2019 (7 people as at 31 December 2018).

The following table sets out the remuneration accrued for group defined above.

	Remuneration short-term and subsistence allowance	
	2019	**2018**
Senior management	1,106	984
	1,106	984

In addition, the yield on capital (interest) and the remuneration received as a complementary distribution of the available surplus (cooperative returns) by the members of the Governing Board and of senior management in 2019 and 2018 totalled 243.46 thousand and 284.44 thousand euros, respectively.

In addition to the amounts accrued during the year to the members of the Entity's Governing Body and Senior Management indicated here above, set out below is a breakdown of income and expenses recorded in the profit and loss account for 2019 and 2018 in relation to the members of the Entity's Governing Body and Senior Management:

	Financial income		Financial costs		Fee and commission income	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Governing Board Members and Senior Management	5	3	-	-	5	3

The members of the Entity's Senior Management who act on behalf of the Entity on the Board of Directors of Group investee entities have received no remuneration due to their positions as Directors of such Investee companies in 2019 and 2018.

(Expressed in thousands of euros)

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 recorded in the balance sheet that relate to transactions carried out with members of the Governing Body and Senior Management of the Entity as at 31 December 2019 and 2018:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities-On demand and term deposits		Guarantees and commitments	
	2019	2018	2019	2018	2019	2018	2019	2018
Governing Board Members and Senior Management	1,887	1,548	-	-	1,240	914	-	-

8. Agency contracts

In accordance with article 21 of Royal Decree 84/2015, dated 13 February, implementing Law 10/2014, dated 26 June, on the organisation, supervision and solvency of credit institutions, Appendix II contains a list of the natural or legal persons to whom the Parent Entity, as at 31 December 2019 and 2018, 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 as at 31 December 2019 and 2018.

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 2019 and 2018, the Group did not deem it necessary to record any provision for risks and charges of an environmental nature as, in the opinion of the Governing Body of the Parent Entity, there are no contingencies under this heading that are likely to have a significant effect on these annual accounts.

10. Deposit Guarantee Fund

10.1 Single Resolution Fund

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

In the context of the implementation of this regulation, on 1 January 2016, the Single Resolution Fund entered into force, which established itself as a financing instrument to be used by the Single Resolution Board, 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 2019, the expense incurred for the contribution to this body amounted to €3,131 thousand (€2,852 thousand in 2018) (Note 56), which has been recorded in accordance with IFRIC 21 in a way similar to the expense recognised for the Deposit Guarantee Fund.

10.2 Deposit Guarantee Fund

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

Royal Decree 2606/1996, dated 20 December, amended by Royal Decree 1012/2015, dated 6 November, establishes that the Management Committee of the Deposit Guarantee Fund shall determine the annual contributions of entities belonging to the Deposit Guarantee Fund for Credit Institutions. In the 2019 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2019 (in the 2018 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2018). The calculation of each entity’s contribution is 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 as at 31 December 2019

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 to €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. As at 31 December 2019, the Parent Entity had recorded this commitment for the amount of €10,568 thousand (€14,091 thousand as at 31 December 2018) under the heading “Other assets – Other accrual items” on the assets side of the consolidated balance sheet (Note 33) and under “Financial liabilities measured at amortised cost - Other financial liabilities” (Note 35) on the liabilities side of the consolidated balance sheet.

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

This increase is implemented in two tranches:

a) A first tranche equivalent to two fifths of the total, payable within 20 business days 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 profit and loss account for 2013.

b) A second tranche equivalent to the remaining three fifths, amounting to €24,455 thousand, to be paid from 1 January 2004 in accordance with the payment schedule set by the Management Committee within a maximum term of seven years. In accordance with that established in IFRIC 21, it was considered that this expense was accrued at the time of the entry into force of this Royal Decree-Law (22nd March 2013), as it involved a contribution that does not depend on the future activity of the Parent Company and should be recognised as a liability in full on said date, regardless of the date of its payment. The Parent 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 Parent Entity paid €10,480 thousand. As at 31 December 2015, €10,480 thousand was outstanding, which was paid on 30 June 2016, thus the total amount of the second tranche has been paid.

In 2019, the expense incurred for all contributions to this Fund totalled 26,509 thousand euros (24,786 thousand euros in 2018), which has been recorded under “Other operating expenses” in the attached consolidated profit and loss account (Note 56).

11. Audit fees

The cost of the contractual fees of PricewaterhouseCoopers Auditores, S.L. for external audit services in 2018 amounted to 528 thousand euros (494 thousand euros in 2018).

Other services provided by PricewaterhouseCoopers Auditores, S.L. and other firms associated with the PricewaterhouseCoopers trademark amounted to 114 thousand euros in 2019 (199 thousand euros in 2018). Of these Other services, during the year 2019 the services provided to the Group by PricewaterhouseCoopers Auditores, SL, other than the audit of accounts, amounted to 106 thousand euros and correspond to the Independent Auditor's Report on the Protection of Client Assets. required by Circular 5/2009, dated 25 November, by the National Securities Market Commission and the revision of the report on the solvency and financial situation under the terms of Circular 1/2018 dated 17 April and Circular 1/2017 dated 22 February, under the scope defined by the Directorate-General for Insurance and Pension Funds (DGSFP).

Of these Other services, during the year 2018 the services provided to the Group by PricewaterhouseCoopers Auditores, SL, other than the audit of accounts, amounted to 199 thousand euros and correspond to the Independent Auditor's Report on the Protection of Client Assets. required by Circular 5/2009, dated 25 November, by the National Securities Market Commission, advice regarding the level of adaptation of the Parent Entity to the General Data Protection Regulation, and the revision of the report on the solvency and financial situation under the terms of Circular 1/2018 dated 17 April and Circular 1/2017 dated 22 February, under the scope defined by the Directorate-General for Insurance and Pension Funds (DGSFP).

12. Events after the balance sheet date

In the period between 31 December 2019 until the date on which these consolidated annual accounts were prepared, no additional events have taken place that significantly affect the Group.

13. Accounting principles and standards and valuation criteria applied

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

a) Going concern principle

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 prepared in accordance with the historical cost approach, although modified by the revaluation, where appropriate, of land and buildings made on 1 January 2004, as indicated in Note 13.q, as well as the valuation at fair value of financial assets at fair value with changes in other comprehensive income and other financial assets and liabilities (including derivatives).

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

d) Nature and operation of Financial derivatives

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

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

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

ii) The financial derivative should efficiently eliminate any risk attached to the hedged item or position 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 the 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.

To make hedges, the Parent Entity uses derivatives of a different nature: derivatives of interest rate, variable income, currency, etc., depending on the type of underlying risk of the item that is 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 profit and loss account.

The Parent Company uses netting and collateral agreements signed with counter-parties as a risk mitigation policy for this concept, thereby minimising the exposure to eventual bankruptcy of the counterpart. As at 31 December 2019, the deposits received and delivered as collateral guarantee amount to 63,010 and 250,578 thousand euros, respectively, and are recorded under the headings "Financial liabilities at amortised cost - Other financial liabilities" and "Financial assets at amortised cost - Loans and advances" (113,585 and 126,564 thousand euros, respectively in the year 2018) (Notes 35 and 25).

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

e) Financial assets

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

i) Financial assets at amortised cost.

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

iii) Financial assets obligatorily at fair value with changes in results:

   a. Financial assets held for trading

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

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

v) Derivatives – Hedge accounting

The classification in the previous categories is made on the basis of the following two elements:

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

Business model

Business model is the way in which financial assets are managed to generate cash flows. The business model is determined considering how groups of financial assets are jointly managed to achieve a specific objective. Therefore, the business model does not depend on the intentions of the group for an individual instrument but is determined for a set of instruments.

The business models used by the Group are:

- Maintenance of financial assets to receive their contractual cash flows: under this model, financial assets are managed with the objective of collecting their concrete contractual cash flows and not to obtain a global return by retaining and selling assets. Notwithstanding the foregoing, disposals prior to the expiration of the assets are permitted under certain circumstances. Among the sales that may be compatible with a model of holding the assets to receive contractual cash flows are those that are infrequent or insignificant, those of assets close to maturity, those motivated by an increase in credit risk and those made to manage the risk of concentration.

- Sale of financial assets.

- Combination of the two previous business models (maintenance of financial assets to receive their contractual cash flows and sale of financial assets): This business model implies the realisation of sales of more frequent and higher value assets, these being essential to the business model.

Characteristics of contractual cash flows of financial assets

A financial asset must be classified in the initial moment in one of the following two categories:

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

- Rest of financial assets.

For purposes of this classification, the principal of a financial asset is its fair value at the time of initial recognition, which may change throughout the life of the financial asset; for example, if there are refunds of principal. Likewise, interest is understood as the sum of the consideration for the time value of money, for the financing and structure costs, and for the credit risk associated with the amount of principal pending collection during a specific period, plus a profit margin.

Classification of portfolios for valuation purposes

The Group classifies a financial asset, for the purposes of its valuation:

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

  a. it is managed with a business model whose objective is to maintain financial assets to receive contractual cash flows, and

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

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

  a. it is managed with a business model whose objective combines the perception of the contractual cash flows of the financial assets and the sale, and

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

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

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

  a. are originated or acquired with the objective of realising them in the short term.

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

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

They constitute an exception to the general valuation criteria described above for investments in equity instruments. In general, the Group exercises the option in the initial recognition and irrevocably by including in the portfolio of financial assets at fair value through changes in other comprehensive income investments in equity instruments that are not classified as held for trading and that, in case of not exercising said option, they would be classified as financial assets obligatorily at fair value with changes in results.

Regarding the evaluation of the business model, this does not depend on the intentions for an individual instrument, but is determined for a set of instruments, taking into account the frequency, the amount and calendar of sales in previous years, the reasons for said sales and expectations in relation to future sales. The infrequent or insignificant sales, those close to the maturity of the asset and those motivated by increases in the credit risk of the financial assets or to manage the concentration risk, among others, may be compatible with the model of holding assets to receive cash flows of contractual cash.

If a financial asset contains a contractual clause that may modify the calendar or the amount of contractual cash flows (such as early redemption clauses or extension of duration), the Group determines whether the cash flows that will be generated during the life of the instrument due to the exercise of said contractual clause are only payments of principal and interest on the amount of the outstanding principal. For this, the contractual cash flows that may be generated before and after the modification of the calendar or amount of the contractual cash flows are considered.

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

The contractual conditions that, at the time of initial recognition, have a minimal effect on cash flows or depend on the occurrence of exceptional and highly unlikely events (such as the issuer's settlement) do not prevent their classification in amortized cost portfolios or fair value with changes recorded in other comprehensive income.

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

vii) Changes in the fair value of the hedged items in a portfolio hedging interest rate risk relating to the counterpart of the amounts credited to the consolidated profit and loss account arising from the valuation of the financial instrument portfolios effectively hedged against interest rate risk by means of fair value hedging derivatives.

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

Jointly controlled Entities are the Participated Entities that are jointly controlled by the Group and by other entities or entities not related to the Group and the joint ventures. Joint ventures are the contractual agreements by virtue of which two or more entities or participants carry out operations or maintain assets in such a way that any strategic decision of a financial or operative nature that affects them requires the unanimous consent of all the participants, without such operations or assets being integrated into financial structures different from those of the unit holders.

Associates are investees in which the Group has a significant influence. 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.

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

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

Recognition and measurement

At the time of initial recognition, all financial instruments will be recorded at their fair value. They are subsequently measured at the accounting close in accordance with the following criteria:

i) Financial assets are measured at fair value except financial assets at amortized cost and investments in joint ventures and associates and financial derivatives that have such equity instruments as underlying assets and are settled through their delivery.

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 similar instruments and, alternatively, sufficiently verified valuation models. Similarly, the specific characteristics of the asset to be measured are taken into account and in particular, the different types of risks associated with the financial asset. Nonetheless, the actual limitations of the measurement models developed and the possible inaccuracies in the assumptions required by these models may mean that the fair value thus estimated of a financial asset does not exactly agree with the price at which it could be bought or sold at the measurement date.

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

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

Upon initial recognition, all financial derivatives are recorded at fair value. At the time of initial recognition, the best evidence of the fair value of a financial instrument is normally the transaction price. The Laboral Kutxa Group does not carry out any relevant transactions with derivative instruments whose fair value at initial recognition differs from the transaction price.

iv) Financial assets at amortised cost are valued at amortised cost, using the effective interest rate method in their calculation. Amortized 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 profit and loss account through the effective interest rate method of the difference between the initial cost and repayment value at maturity and less any impairment losses directly recognized as a decrease in the amount of the asset or through a value adjustment account. For Loans and receivables that are hedged in fair-value hedging operations, any changes that occur in their fair value relating to the risk or the risks being hedged by said hedging operations are recorded.

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

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

Transaction costs are defined as expenses directly attributable to the acquisition or disposition of a financial asset, or to the issuance or assumption of a financial liability, which would not have been incurred if the Entity had not made the transaction.

Items receivable for commercial operations that do not have a significant component of financing and commercial loans and short-term debt instruments that are initially valued at the transaction price or its principal, respectively, are valued at that amount minus correction of value for impairment, estimated as described in section h) of this same Note 13.

In 2019, the Group completed an internal project with the objective of identifying direct and incremental transaction costs of asset transactions. The project consists of certain identified transaction costs being initially recognised as an increase in the value of the asset and included in the determination of the effective interest rate, reducing it for financial assets through their accrual over the life of the transaction (see Note 25-b.2).

Changes in the book amount of financial assets are generally recognised with a balancing entry in the consolidated profit and loss account, distinguishing between those arising from the accrual of interest and similar items, which are recognised under "Interest Income", and those corresponding to other causes, which are recognised, at their net amount, under "Profit or (-) loss on financial assets and liabilities held for trading, net", "Profit or (-) loss for financial assets not intended for trading, which are necessarily valued at fair value through profit or loss, net" or "Profit or (-) loss on assets and liabilities allocated at fair value through profit or loss, net" in the consolidated profit and loss account.

However, changes in the carrying amounts of the instruments included under "Financial assets at fair value through other accumulated comprehensive income" are recognised temporarily under "Other accumulated comprehensive income" in consolidated net Equity unless they arise from exchange differences on monetary financial assets. The amounts included in the heading "Other accumulated comprehensive income" remain part of the consolidated Net Equity until the reduction in the consolidated balance sheet of the asset in which they originate occurs, at which time they are written off against the profit and loss account and consolidated earnings, recorded under "Gains or losses upon derecognition in financial assets and liabilities not valued at fair value through profit or loss, net", in the case of debt instruments and "other reserves", in the case of equity instruments.

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

i) For fair value hedges, differences in hedges and hedged items, with respect to the type of risk being hedged, are recognized directly in the consolidated profit and loss account.

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 profit and loss account.

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 income to consolidated equity.

In these latter two cases, measurement differences are not recognized as results until the gains or losses on the hedged item are recorded in the consolidated profit and loss account or until the expiry date of the hedged item.

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

Only when the Group changes its business model for the management of financial assets would all the affected financial assets be reclassified in accordance with the following sections. Said reclassification is made prospectively from the date of the reclassification, without it being appropriate to restate previously recognized gains, losses or interests. In general, changes in the business model occur very infrequently, in the following cases:

i) If the Group reclassifies a debt instrument from the amortized cost portfolio to that of fair value through profit or loss, the Group must estimate its fair value at the date of reclassification. Any loss or gain that arises, due to the difference between the previous amortized cost and the fair value, will be recognized in the consolidated profit and loss account.

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

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

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

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

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

vii) When the investment in a subsidiary, joint venture or associate ceases to qualify as such, the retained investment, if any, will be measured at its fair value at the reclassification date, recognizing any gain or loss that arises, as a difference between the amount in books prior to reclassification and said fair value, in profit or loss or in other comprehensive income, as applicable, based on the subsequent valuation of the investment retained.

Except for the reclassifications of portfolio explained in Note 2, during 2019 and 2018 there have been no reclassifications between portfolios of financial instruments, nor sales of financial assets at amortised cost/investments held until maturity.

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 on 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 includes the financial derivatives purchased or issued by the group which qualify for consideration as accounting hedges.

v) Changes in the fair value of the hedged items in a portfolio with interest rate risk as the counterpart of the amounts credited to the consolidated profit and loss account 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 arising from the insurance contracts which are in force at the year end.

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

The articles of association of the Parent Company establish that the return of member contributions will be conditional both on the favourable agreement of the Parent Company Governing Board and that with this return there is no insufficient hedging of the minimum share capital, equity or solvency ratio.

viii) Liabilities included in disposal groups classified as held for sale which relate to the balances payable under non-current assets and disposal groups classified as held for sale.

Recognition and measurement

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

i) Financial liabilities included under the headings Financial liabilities held for trading and Financial liabilities designated at fair value through profit and loss are carried at fair value, as defined for financial assets under Note 13.e. The financial liabilities hedged in fair value hedges are adjusted and any changes in their fair value in relation to the risk hedged in the hedge are recognised under "Micro-hedging transactions" in the heading to which these financial liabilities belong.

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

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

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

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

Transfers of financial instruments are accounted for by taking into account the manner in which the risks and rewards associated with the transferred financial instruments are transferred, based on the following criteria:

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

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

- If the Group retains control of the financial instrument transferred, in which case it continues to recognize 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 recognized 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 amortized cost of the rights and obligations retained if the asset transferred is measured at amortized 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 implicitly carry have been substantially transferred to third parties. Similarly, financial liabilities are only written off the consolidated balance sheet when the obligations that they generate have been extinguished or when they are purchased with a view to their cancellation or replacement.

In the consolidated annual accounts for 2019 and 2018 the Group includes by full integration the I.M. securitisation funds. Caja Laboral 1, F.T.A. and I.M. Caja Laboral 2, F.T.A., to which the Group transferred certain loans in 2006 and 2008, respectively (see Notes 25 and 35).

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

h) Impairment of financial assets and other credit exposures

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

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

Impairment losses for the period in the debt instruments are recognized as an expense under the heading "Impairment of value or (-) reversal of impairment of financial assets not valued at fair value through profit or loss and net gains or losses due to modification" of the consolidated profit and loss account. Impairment losses on debt instruments at amortized cost are recognized against an allowance account that reduces the carrying amount of the asset, while those at fair value through changes in other comprehensive income are recognized against other accumulated comprehensive income. .

Hedges for impairment losses on exposures that involve credit risk other than debt instruments are recorded as a provision in the "Provisions - Commitments and guarantees granted" heading of the balance sheet. The provisions and reversals of these hedges are recorded under the heading "Provisions or (-) reversal of provisions" in the consolidated profit and loss account.

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

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

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

The Group has policies, methods and procedures to estimate the losses that may arise as a result of its credit risks, both due to insolvency attributed to counter-parties and due to country risk. These policies, methods and procedures are applied when granting, modifying, evaluating, monitoring and controlling 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, as:

i) Standard exposures:

a. Includes all operations that do not meet the requirements to be classified in other categories (Stage 1).

b. Standard exposure subject to special monitoring: This category includes all operations that, without meeting the criteria for classification as doubtful or failed risk, present significant increases in credit risk since initial recognition (Stage 2), including defaults of between 30 and 90 days or refinanced/restructured operations.

ii) Doubtful risk (Stage 3):

a. As a result of borrower arrears: This category includes the value of debt instruments, irrespective of their holder and guarantee, which have any contractually agreed amount due in terms of principal, interest or expenses and which are more than 90 days old, unless they are classified as non-performing. Also included in this category are 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 aforementioned percentage, the gross carrying amount of non-performing transactions for overdue amounts shall be taken as the numerator and the gross carrying amount of all debt instruments granted to the holder as the denominator. If the percentage calculated in this way exceeds 20%, both debt instruments and off-balance-sheet exposures involving credit risk of the holder shall be transferred to doubtful status on account of non-performance.

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

This category would include, inter alia, operations where the holders are in a situation involving a deterioration in their solvency.

iii) Failed risk: This category includes debt instruments, whether matured or not, for which, after an individual analysis, their recovery is considered remote due to a notable or irrecoverable deterioration in the solvency of the operation or the holder. Classification in this category will entail the full write-off of the gross carrying amount of the transaction and its total derecognition from the asset.

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 early identification of the weaknesses and impairment of the transactions, the Group establishes a monitoring model that allows their corresponding treatment to be assigned, depending on the different levels of default risk.

For significant borrowers, a predictive model of non-payment is established, consisting of a system of variables/alerts with which it aims to detect future situations of non-payment by customers, calibrate and quantify their seriousness and establish different levels of probability of risk of non-payment. An expert team of risk analysts analyses the borrowers with active alerts to draw conclusions about the existence of weaknesses or objective evidence of impairment and, in the case of evidence of impairment, whether the 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. If they are 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 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.

Operations purchased or originated with credit deterioration

The credit loss expected on the purchase or origination of these assets is not part of the hedge or gross carrying amount at initial recognition. When a transaction is purchased or originated with credit impairment, the hedge is equal to the cumulative amount of changes in expected credit losses over the life of the transactions after initial recognition and interest income on these assets is calculated by applying the effective interest rate adjusted for credit quality to the amortised cost of the financial asset.

Refinancing and restructuring operations

The credit risk management policies and procedures applied by the Group ensure that borrowers are closely monitored and that provisions are made when there is evidence of a deterioration in their solvency. For this purpose, the Group constitutes the insolvency provisions for transactions in which the borrower’s circumstances requires them, prior to formalizing the restructuring/refinancing operations, which should be understood as follows:

- Refinancing operation: operation which, regardless of the title holder or guarantees, is granted or used for economic or legal reasons related to current or foreseeable financial difficulties of the holder(s) to repay one or more operations granted, by the entity itself or by other entities of its group, to the holder(s) or other company(ies) in the same economic group, or by which it brings such transactions wholly or partly up to date with payment, in order to make it easier for the holders of the transactions repaid or refinanced to pay their debt (principal and interest) because they cannot, or are not expected to be able to, comply with their conditions in a timely manner.

- Restructured operation: operation by which, due to economic or legal reasons related to current or foreseeable financial difficulties of the holder(s), the financial conditions are modified so as to make it easier to pay the debt (principal and interest) because the holder cannot, or is not expected to be able to, comply with the conditions in a timely manner, even when such modification is provided for in the contract. In all cases, restructured operations are those in which there is a release of debt or assets are received in order to reduce the debt, or in which the conditions are modified to extend their maturity, to vary the amortisation table in order to reduce the instalments in the short term or to reduce their frequency, or establish or extend the grace period for the payment of principal and/or interest, unless it can be proven that the conditions are modified for reasons other than the financial difficulties of the holders and are similar to those applied in the market at the modification date to operations granted to holders with a similar risk profile.

If a transaction is classified within a specific risk category, the refinancing transaction does not entail any automatic improvement in its risk assessment. For refinancing operating, its initial classification is established 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.

Criteria for hedge estimates

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), a 0% hedge percentage is applied to them, except in the case of transactions classified as doubtful, where an individualised estimate of impairment is made.

1) Individual hedging estimates:

The following items must be estimated individually:

i) Hedging of doubtful debt operations and those under special surveillance of individually significant debtors. The Group has established a threshold of 3 million euros in terms of total risk exposure in order for borrowers to be considered significant.

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

iii) The hedging of transactions identified as having no appreciable risk and classified as doubtful, both because of non-performing loans and for reasons other than non-performing loans.

For calculating these hedge estimates, 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) Generation of cash flows: for debtors who 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 guarantees: debtors without the ability to generate cash flows with the development of their own business, estimating the recovery of the debt through the execution of guarantees.

Similarly, the minimum hedges to be considered as an individualised estimate will be those applicable using the criteria of collective estimation for risks subject to analyses by accounting classification or, in the case of development sector operations, according to the criteria established in Royal Decree-Law 2/2012 dated 3 February.

2) Collective hedging estimates:

The following are subject to collective estimation:

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

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

ii) Exposures classified as doubtful that are not assessed through individual hedge assessment

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

In estimates 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 the effective security interests by applying to their reference value the discounts estimated on the basis of its experience and existing information on the Spanish banking sector, in accordance with the methodology required by IFRSs and other applicable legislation.

Classification and coverage of credit risk due to country risk

Country risk is the risk involved in transactions with parties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The Group classifies transactions conducted with third parties into different groups according to the economic trends of the 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 materialization of country risk are transactions in which the final borrowers are resident in countries experiencing long-term difficulties to meet their debt obligations, and the possibility of recovery is considered doubtful, as well as other off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The Group does not have provisions for this concept at the closure of 2019 and 2018, 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 amortization 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, different updating criteria are applied, including the annual updating of doubtful and foreclosed risks as a general rule.

Debt securities measured at fair value

The amount of impairment losses incurred in debt securities included in the heading "Financial assets at fair value through changes in other comprehensive income" is equal to the positive difference between their acquisition cost, net of any amortization of principal, and its fair value less any impairment loss previously recognized in the consolidated profit and loss account.

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

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

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

Equity instruments

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

When there is objective evidence that the decline in fair value is due to impairment, the latent capital losses recognized directly under "Other accumulated comprehensive income" in the consolidated net equity are recorded immediately in "Other consolidated reserves". If subsequently all or part of the impairment losses are recovered, the amount involved is recognized, under “Accumulated other comprehensive income” to consolidated equity.

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

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 recognized in the consolidated profit and loss account in the year in which they arise and any subsequent reversals are similarly recognized in the consolidated profit and loss account in the year in which the impairment reversal occurs.

(Expressed in thousands of euros)

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

- Significant financial difficulties
- Disappearance of an active market for the instrument in question due to financial difficulties.
- Significant changes in the results compared to the data collected in budgets, business plans or objectives.
- Significant changes in the market of the issuer's equity instruments or its products or possible products.
- Significant changes in the global economy or in the economy of the environment in which the issuer operates.
- Significant changes in the technological or legal environment in which the issuer operates.

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

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 as at 31 December 2019 and 2018:

	2019		2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollars	119,034	29,844	54,943	26,054
Pounds sterling	773	1,109	5,280	1,505
Japanese yen	653	136	160	165
Swiss franc	195	29	760	103
Other	143	242	1,239	909
	120,798	31,360	62,382	28,736

The equivalent value in thousands of euros of the foreign currency assets and liabilities classified by type, held by the Group as at 31 December 2019 and 2018 is as follows:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and other on demand deposits	8,575	-	12,068	-
Financial assets held for trading	38	-	15	-
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	9,252	-	8,826	-
Financial assets at fair value with changes in other comprehensive income	22,501	-	27,963	-
Financial assets at amortised cost	80,432	-	13,510	-
Hedge accounting derivatives	-	2,225	-	-
Financial liabilities held for trading	-	38	-	20
Financial liabilities at amortised cost	-	28,444	-	27,747
Commitments and guarantees given	-	653	-	969
	120,798	31,360	62,382	28,736

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

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

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

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

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

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

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

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

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

iii) Equity is converted at historical exchange rates.

Exchange differences resulting from the conversion of the Investees' annual accounts where the functional currency is not the Euro are recorded under Accumulated other comprehensive income in 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 2019 and 2018 accounting close, there was no need to adjust the financial statements of any Investee to correct them for the effects of inflation.

j) Recognition of income and expenses

Income and expenses 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 recognised as income when the right to receive them arises.

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

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

   i) Commissions received for the creation or acquisition of financing transactions that are not valued at fair value with changes in profit and loss: they may include remuneration for activities such as the evaluation of the financial situation of the borrower, the evaluation and registration of various guarantees, the negotiation of operating conditions, the preparation and processing of documentation and the closing of the transaction. They are deferred and recognised in the consolidated profit and loss account over the life of the operation as an adjustment to the performance or effective cost of the operation. The commissions accrued in 2019 and 2018 by product are: Financial commissions accrued in 2019 amounted to 6,755 thousand euros (6,561 thousand euros in 2018).

   ii) Commissions agreed as compensation for the commitment to grant financing, when said commitment is not valued at fair value with changes in profit and loss and it is probable that the Group enters into a specific loan agreement. The recognition of income for these commissions is deferred, being charged to the consolidated profit and loss account over the expected life of the financing as an adjustment to the performance or effective cost of the operation. If the commitment expires without the entity making the loan, the commission is recognized as an income at the time of expiration.

   iii) Commissions paid in the issuance of financial liabilities valued at amortized cost. They are included together with the related direct costs of the carrying amount of the financial liability, and are recognized in the consolidated profit and loss account as an adjustment to the effective cost of the operation.

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

   i) Related to the execution of a service provided over time, such as commissions for account management and those received in advance for issuing or renewing credit cards: the income will be recorded in the consolidated profit and loss account over time, measuring the progress towards full compliance with the execution obligation, in accordance with the criteria detailed in the following section. In the case of investment management fees on behalf of third parties, they shall be recorded by measuring the progress towards compliance with the obligation, applying the general criteria for the recognition of income and expenses to the costs of obtaining and complying with said contract.

ii) Related to the provision of a service that is executed at a specific moment: These commissions are accrued when the client gains control over the service, such as in the case of subscription of securities, currency exchange, advice or loan syndication (in this case, when the Group does not retain any part of the operation for itself or retains it under the same risk conditions as the rest of the participants). In credit operations in which the disposition of funds is optional for the credit holder, the availability commission for the part not disposed of will be recorded as income in the consolidated profit and loss account at the time of receipt.

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

Accrued commissions derived from products or services typical of the financial activity are presented separately from those derived from products and services that do not correspond to the typical activity, which are presented in the "Other operating income" heading of the consolidated profit and loss account.

k) Offset of balances

Debtor and creditor balances arising in operations 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 profit and loss account as financial income.

ii) The value of financial guarantee contracts that have not been classified as doubtful is the amount initially recognised under liabilities minus the portion attributed to the consolidated profit and loss account on a straight line basis over the expected life of the guarantee, or in accordance with other criteria, provided that they are a truer reflection of the perceived financial risks and benefits derived from the guarantee.

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

m) Leases

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

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

Whenever the Group acts as a lessor of an asset, the sum of the current values of the amounts 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 "Financial assets at amortised cost" 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 recorded 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 expenses arising on these contracts is credited and charged, respectively, to accounts in the consolidated profit and loss account 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 recognized in the consolidated profit and loss account on a straight-line basis.

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

n) Managed assets

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 profit and loss account (Note 48).

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 68). The fees accrued in the year for the various services rendered to these funds by the Group (asset management services, deposit of portfolios, etc.) are recorded under "Income from commissions" in the consolidated profit and loss account (Note 48).

o) Staff costs and post-employment benefits

Remuneration paid to employees upon the termination of their employment is considered as 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 recognized as follows:

i) In the consolidated profit and loss account: the cost of services provided by employees, both during the year and in prior years (where not recognized 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 recognized in the consolidated statement of changes in equity will not be reclassified to the consolidated profit and loss account in future years.

Accordingly, defined benefit plans are recognized in the consolidated profit and loss account as follows:

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

PD 58

Likewise, in 2016 the Parent Entity formalized a plan called "PD 58", approved by the Governing Board and aimed at a specific group of Caja Laboral Popular Coop. de Crédito‘s working partners, with a period of validity from 01 January 2017 to 30 June 2020. This new plan is voluntary and only applicable to the group to which it is addressed and once the willingness of the worker member to join it has been expressed in writing.

The main characteristic of this new scheme is as follows:

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

The obligation accrued at the end of 2019 and 2018 is recognised under “Provisions – Pensions and other post-employment defined benefit obligations” on the balance sheet at that date (Note 37).

New Network

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

The obligation accrued at the end of 2019 and 2018 is recognised under “Provisions – Pensions and other post-employment defined benefit obligations” on the balance sheet at that date (Note 37).

PD 59

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

The main characteristic of this new scheme is as follows:

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

The obligation accrued at the end of 2019 and 2018 is recognised under “Provisions – Pensions and other post-employment defined benefit obligations” on the balance sheet at that date (Note 37).

PD 60

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

The main characteristic of this new scheme is as follows:

i) it established the possibility for members born in 1960 to receive a specific financial consideration/assistance at the time of the cessation of their activity on reaching the age of 60 or 61, in accordance with the option they had exercised at the time of signing the corresponding contract.

The obligation accrued at the end of 2019 and 2018 is recognised under “Provisions – Pensions and other post-employment defined benefit obligations” on the balance sheet at that date (Note 37).

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 create a provision in this connection.

p) Tax on income from ongoing activities

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

The expenditure under the heading "Income tax expense or income from continuing operations" is determined by the tax payable calculated on the basis of the taxable income for the year, after taking into account the changes in the year due to temporary differences, tax credits and tax relief and tax loss carry-forwards. The taxable profit for the year may differ from the consolidated net profit for the year presented in the consolidated income statement since it excludes income or expense items that are taxable or deductible in other years and items that are never taxable.

Deferred tax assets and liabilities relate to the taxes that are expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the related tax bases, are accounted for using the liability method in the consolidated balance sheet and are quantified by applying to the related temporary difference or credit the tax rate that is expected to be recovered or settled.

A deferred tax asset, such as a pre-paid tax, a credit for deductions and rebates and a credit for tax losses, is recognised provided that it is probable that the Group will obtain sufficient future taxable profits against which it can be utilised. 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 realized 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.

However, the deferred tax asset arising from the recording of investments in subsidiaries, jointly controlled entities and associates is only recognised when it is probable that it will be realised in the foreseeable future and it is expected that sufficient taxable profit will be available in the future against which the asset can be utilised. Nor is a deferred tax asset recognized 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 recognized 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 recognized when an equity item is initially recorded which is not a business combination, which at the time of recognition has not affected the accounting or tax results.

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

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

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

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

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

Income or expenses recognized 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 are expected to be used for more than one year, property, plant and equipment transferred to customers under operating leases, tangible assets associated with community projects and investment properties, which include assets to be operated on a rental basis. 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 as at 1 January 2004 in accordance with Transitional Provision One of Circular 4/2004. That fair value as 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 years of estimated useful life of the various items over the acquisition cost of the assets less their 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 equipment are recorded against the consolidated profit and loss account and are calculated on the basis of the following average estimated useful lives of the different asset groups:

	Years of estimated useful life
Buildings and developments	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 indications, either internal or external, that the net value of the elements of its material asset exceeds its corresponding recoverable amount. In this case, the Group reduces the book value of the relevant asset to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted book 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 previous 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 the impairment losses had not been recorded in previous years.

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 profit and loss accounts 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 profit and loss account in the year in which they are incurred.

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

The criteria applied by the Group to recognize 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 arise as a result of a contract or other legal transaction. An intangible asset is recognized 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 recognized initially at acquisition or production cost and are subsequently measured at cost less, if appropriate, accumulated amortization and any impairment loss.

Goodwill

Goodwill represents the advance payment by the Group for the future economic benefits arising from assets of an acquired entity that are not individually and separately identifiable and recognisable and is only recognised when acquired for a consideration in a business combination.

The positive differences between the cost of the holdings in the capital of the jointly controlled entities and the associated companies with respect to the related underlying book values acquired, adjusted at the date of first-time consolidation, are allocated as follows:

i) If they are attributable to specific assets and liabilities of the acquired entities, they are allocated by increasing the value of the assets or reducing the value of the liabilities whose market values were higher or lower, respectively, than the net book values at which they were recorded in their balance sheets and whose accounting treatment were similar to that of the same assets or liabilities, respectively, of the Group.

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 acquired Entities 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 recognized in the consolidated profit and loss account in the year in which the equity investment is made.

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

The Group recognizes potential impairment losses on these assets with a balancing entry in the consolidated profit and loss account. The criteria used to recognise impairment losses on intangible assets and any potential reversal of impairment losses recognized in prior years are similar to those used in respect of property, plant and equipment.

s) Stocks

Stocks are non-financial assets that the Group holds for sale in the ordinary course of business, are in the process of production, construction or development for such purpose or are to be consumed in the production process or in the provision of services. Inventories include, therefore, land and other properties that are held by the Group for sale as part of its property development business.

Stocks are measured at the lower of cost, which includes all costs incurred in acquiring and converting them, and other direct and indirect costs incurred in bringing them to their present location and condition, and their net realisable value. Net realisable value is defined as the estimated sale price of the stock in the ordinary course of business, less the estimated cost of completing their production and the costs involved in selling them.

The amount of any valuation adjustments to stock such as damage, obsolescence or reduction in the selling price up to the net realisable value and any other losses are recognised as an expense in the consolidated profit and loss account for the year in which the impairment or loss occurs. Any later recoveries in value are taken to the consolidated profit and loss account for the year in which they occur.

The carrying value of inventories is written off the consolidated balance sheet and is charged to expenses in the consolidated profit and loss account in the year the income from their sale is recognized. The indicated expenses are included under the heading Other operating expenses in the consolidated profit and loss account.

t) Insurance transactions

The Subsidiaries, which are insurance companies, credit the amounts of the premiums they issue to the consolidated profit and loss account and charge to the consolidated profit and loss account the cost of the claims incurred when the final settlement is made. Similarly, the amounts credited to the consolidated profit and loss account and not accrued at that date, and the costs incurred not charged in the consolidated profit and loss account, are accrued at the year end.

The most significant technical provisions relating to direct insurance activity are as follows:

i) Technical provision for unearned premiums which corresponds to the premium rate charged in a year attributable to future years after deduction of the security surcharge.

ii) Technical provision for current risks, which complements the technical provision for unearned premiums to the extent that the latter is not sufficient to reflect the valuation of the risks and expenses to be covered that correspond to the period of the cover not elapsed at the closing date.

iii) Technical reserve for claims which relates to the estimated measurement of outstanding obligations arising 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 provision:

- For life insurance where the period of cover is equal to one year or less, the unearned premium provision relates to the tariff premium collected which is assignable to future years. When that technical provision is not sufficient, an unexpired risk provision 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 policies with a period of cover of more than one year, the Mathematical Technical Provision is calculated as the difference between the actuarial present value of future obligations and those of the policyholder or insured party, taking as a basis for calculation the inventory premium accrued in the year, which is made up of the pure premium plus the surcharge for administrative expenses according to the technical bases.

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

v) Technical provision 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 these.

vi) Stabilisation Reserves which correspond to the amount set aside in each year for the amount of the specific security surcharge for certain classes of insurance, with the limit provided for in the technical bases, and which are of a cumulative nature.

The Technical provisions 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 the heading 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 the contracts in force. The Group verifies whether said assets are impaired, in which case it recognises the relevant loss directly in the consolidated profit and loss account 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 non-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 recognized 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 consideration the best information available on the consequences of the event giving rise to them and are estimated at each accounting close. They are used to address the specific obligations for which they were recognized and may be reversed in full or in part when such obligations no longer exist or decrease.

As at 31 December 2019 and 2018 the Group may have to address certain litigations, responsibilities and obligations arising from the ordinary performance of its operations. Both the Group's legal advisers and the directors of the Parent Company understand that the conclusion of these proceedings and claims will not produce a significant effect, additional to that, if applicable, included as a provision, in the consolidated financial statements for the years in which they end.

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 whatever nature, which, not being part of operating activities, include amounts expected to be realised or recovered within one year from the date of classification 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 resulting from the passage of time under the heading Profit or (-) Loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated profit and loss account.

Accordingly, the recovery of the carrying amount of these items, which may be financial or non-financial in nature, is expected to occur through the price obtained on disposal, rather than through continued use.

Therefore, property and other non-current assets received by the Group to meet all or part of the payment obligations to it from its debtors are considered to be non-current assets held for sale, unless the Group has decided to make continuing use of these assets.

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

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

All the legal process expenses shall be recognized immediately in the profit and loss account for the period in which they are accrued. Registration costs and taxes paid may be included in the value initially recognised provided that this does not exceed the fair value less the estimated costs of sale. 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 recognised in the consolidated profit and loss account for the period in which they are accrued.

After adjudication or receipt, the reference valuation is updated, which serves as the beginning point for the estimation of the fair value. For the purpose of determining fair value net of costs of sales, the Group takes into account both the valuations made by different valuation companies registered in the Special Registry of Bank of Spain and the discounts on the reference value estimated by the Bank of Spain, based on its experience and information from the Spanish banking sector. Also, when the property has a fair value less than or equal to 300.000 euros, updating is made by automated valuation models. When these properties reach three years of permanence on the balance sheet, they will be updated, in any case, by means of a complete appraisal. In addition, the appraisal company, which makes the valuation update, will be different from the one who performed the immediately preceding one.

In the event that the carrying value exceeds the fair value of the assets net of selling costs, the Group adjusts the carrying value of the assets by that excess amount, with a balancing entry under consolidated Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated profit and loss account. In the event that there are subsequent increases in the fair value of the assets, the Group reverses the previously recorded losses and increases the book value of the assets up to the limit of the amount just prior to their possible impairment, with a balancing entry under Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations in the consolidated profit and loss account.

Discontinued operations

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

- Represent a line of business or geographical area which is significant and separate from the rest.
- Are part of a single coordinated plan to transfer, or otherwise dispose of, 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 profit or loss after tax from discontinued operations in the consolidated profit and loss account, both when the business has been derecognised 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 profit and loss account for the year and in the comparative year published in the consolidated annual accounts, under the corresponding items according to their nature.

w) Consolidated cash flow statement

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

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

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

iii) Investment activities that correspond to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in subsidiaries, joint ventures and associates, non-current assets and disposable groups of items that have been classified as "Financial assets at fair value with changes in other comprehensive income" and the liabilities included in said groups.

Variations caused by the acquisition or disposal of a set of assets or liabilities that make up a business or line of activity will be included in the item "other business units" in the individual financial statements, and in the item "subsidiaries and other business units" in the consolidated financial statements, depending on their sign.

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 on 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 Articles of Association 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 recognized 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 recognized 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 recognized in the credit cooperative’s profit and loss account in accordance with normal market conditions for that type of activity.

The Fund’s property, plant and equipment is included under Tangible assets and is carried at restated cost in accordance with the rules described in paragraph r) above, less the relevant accumulated depreciation.

The depreciation of the items of property, plant and equipment is made on the updated cost or cost values, as applicable, following the linear method during the estimated useful life periods for each group of elements and using the same coefficients as those described in section q) above.

y) Consolidated statement of changes in net equity and consolidated statement of recognised income and expenses

These statements presented in these consolidated annual accounts show all changes affecting equity during the year. The main characteristics of the information contained in both statements is set out below:

i) Consolidated statement of recognized income and expenditure

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

Therefore, this statement presents:

a) The consolidated profit or loss for the year.

b) The net amount of income and expenses recognized as "Other comprehensive income" that will not be reclassified in profit or loss.

c) The net amount of income and expenses recognized as "Other comprehensive income" that can be reclassified in profit or loss.

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

Changes in income and expenses recognized as "Other comprehensive income" such as "Items that will not be reclassified to income" are broken down into:

a) Actuarial profit or (-) loss on defined benefit pensions plans includes the gains or losses for the period due to changes in the valuation of the obligations due to changes and differences in actuarial assumptions, certain income from assets subject to the plan and variations in the asset limit.

b) Non-current assets and disposal groups held for sale: includes the gains and losses for the period that must be recorded in other comprehensive income as a result of the valuation of these type of assets, and that will not subsequently be reclassified to profit or loss.

c) Share of other recognised income and expenses of investments in joint ventures and associates: this item, which will only appear in the consolidated statement of recognised income and expenditure, will include the gains and losses for the period from entities valued using the equity method that must be recorded in other comprehensive income, and that will not subsequently be reclassified to profit or loss.

d) Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income: includes the gains and losses for the period due to changes in the fair value of investments in equity instruments, when the entity has irrevocably chosen to recognise them in other comprehensive income.

e) Profit or loss arising from the hedge accounting of equity instruments measured at fair value with changes in other comprehensive income, net: represents the change in the period in the ineffectiveness of the cumulative hedge in fair value hedges where the hedged item is an equity instrument measured at fair value through other comprehensive income. It includes the difference between changes in the fair value of the investment in equity recorded in "changes in the fair value of equity instruments measured at fair value through changes in other comprehensive income (hedged item)" and changes in the variation in the fair value of hedge derivatives recorded in "changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)".

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

Changes in income and expenses recognized in "other comprehensive income" as "elements that can be reclassified in results" will be broken down into:

a) Hedging of net investments in foreign businesses (effective portion): it will include the change in the period of the accumulated results as a consequence of changes in the exchange rate for the effective part of hedges, which are maintained and discontinued, of foreign businesses.

b) Currency conversion: includes the differences that arise in the period as a result of the conversion of items from the functional currency to the presentation currency.

c) Cash flow hedges (effective part): includes the gains and losses for the period from the effective portion of the changes in the fair value of the hedging instruments in this type of hedging relationship.

d) Hedging instruments (non-designated items): includes variations in the period of cumulative changes in the fair value of the following items when they are not designated as a component of the hedge: temporary value of the options, future elements of futures contracts, differential basis of exchange differences of financial instruments.

e) Debt instruments at fair value with changes in other comprehensive income: includes the gains or losses for the period of these instruments that are not due to impairment or exchange differences, which will be recorded, respectively, within the items "impairment of value or (-) reversal of the impairment of value of financial assets not valued at fair value through profit or loss "and" exchange differences (gain or loss), net", in the profit and loss account.

f) Non-current assets and disposal groups held for sale: Includes the losses and gains of the period that must be recorded in other comprehensive income as a result of the valuation of this type of assets, and that can subsequently be reclassified to results.

g) Share in other recognised income and expenditure of investments in joint ventures and associates: This item, which will only appear in the consolidated statement of recognized income and expenses, will include the gains and losses for the period from entities valued using the equity method that must be recorded in other comprehensive income, and which can subsequently be reclassified to profit or loss.

Additionally, each of the items in the previous section will be broken down into:

a) Valuation gains or (-) losses recorded in equity: includes the amount of the income, net of the expenses originated in the year, recognized directly in equity. The amounts recognized in equity for the year will be kept under this heading, even if they are transferred in the same year to the profit and loss account or transferred to the initial carrying amount of the assets or liabilities, or are reclassified to another line item. , according to letters b), c) and d) below, respectively. When this breakdown refers to the item in letter b) of the previous section, it will be called "Gains or losses due to foreign exchange changes recorded in equity".

b) Transferred to results: includes the amount of valuation gains or losses previously recognized in equity, even in the same year, that are recognized in the profit and loss account (sometimes, the effect of this presentation is known as "income and expenditure recycling" and the amount transferred is called "adjustment by reclassification").

c) Transferred to the initial carrying amount of the hedged items: this breakdown, which will only be presented for the item in letter c) of the previous section, will include the amount of the gains or losses for valuation previously recognised in equity, even in the same year, which are recognised in the amount in initial books of assets and liabilities as a result of cash flow hedges.

d) Other reclassifications: includes the amount of the transfers made in the year between the different items, in accordance with the criteria indicated in the rules of this title.

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

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 correction: includes changes in consolidated equity arising from the retrospective restatement of financial statement balances resulting from changes in accounting policies or from the correction of errors.

b) Total comprehensive income for the year: includes, in aggregate form, the total of the items registered in the above-mentioned consolidated statement of recognised income and expense.

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

z) Business combinations

Business combinations are those transactions whereby two or more economic entities or units are combined into 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, one of the entities that existed previously is identified as the acquirer and the transaction is accounted for in the same way as a transaction in which one entity acquires another entity.

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 acquisition 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 value at the acquisition date. For each business combination, the Entity may choose to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

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

Any contingent consideration payable by the Entity is recognized 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 recognized in accordance with IAS 39 either in profit and loss or as a change in equity. Contingent consideration that is classified as part of consolidated equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially valued as the excess of the total consideration transferred and the fair value of the 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 recognized 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 recognized once it has all the information necessary to complete the estimates made when preparing the first set of consolidated annual annual accounts issued after the date of the business combination.

aa) Goodwill

A positive difference between the cost of a business combination and the acquired portion of the net fair value of the assets and contingent liabilities of the acquired entity is recognized 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 can not be individually or separately identified and recognized. Goodwill is only recognised when it has been acquired for a consideration in 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 profit and loss account.

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 those businesses with financial activity, variables are projected such as: the evolution of credit, non-performing loans, customer deposits and interest rates under a projected 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”.

(Expressed in thousands of euros)

- 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 Service

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

The official response period is 2 months from receipt of the letter, except in the case of claims relating to payment services, which must be resolved no later than 15 working days after receipt thereof, although the Group undertakes to address these issues with the utmost diligence, without exhausting the aforementioned periods.

Concerning the activity of the Customer Service of the parent entity, Caja Laboral Gestión, S.G.I.I.C., S.A. and Caja Laboral Pensiones, S.A.G.F.P., 6.458 cases were brought in 2019 (9.253 in 2018), of which 5.320 were admitted (6.186 in 2018), which were responded to. 1.138 cases were not admitted (3.067 in 2018) for the reasons set out in the Customer Care Regulations as grounds for rejecting complaints or claims.

	2019	2018
No. case files opened		
- In writing: brochure / letter	5,057	7,511
- Internet	988	1,258
- By telephone	3	4
- Public bodies: OMIC / Autonomous Governments	390	480
	6,438	**9,253**
No. case files processed	**5,584**	**6,186**
Nature of the Files		
- Complaints	4,937	7,587
- Claims	1,319	1,334
- Queries	13	6
- Suggestions	13	9
- Letters of congratulation / gratitude	2	-
- Sundry petitions	148	312
- Others	6	5
	6,438	**9,253**

	2019	2018
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	1,149	1,627
- Amounts relating to cases for which the decision favoured the Customer:	69	44
- Indemnities paid by the Entity	69	44
	1,218	**1,671**

(Expressed in thousands of euros)

With regard to the reason for opening files, it should be noted that these focus on the following areas:

	2019	2018
Economic terms	14%	16%
Commissions and expenses	73%	71%
Missing or inaccurate information	1%	1%
Centralised customer services	3%	3%
Offices by objective elements	3%	2%
Covering needs	1%	1%
Aspects of customer relations	2%	1%
Others:	3%	5%
- Speed and efficiency at ATMs	*1%*	*1%*
- Miscellaneous	*2%*	*4%*
	100%	100%

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

	2019	2018
= < €10	0.05%	0.04%
> 10 < = €60	0.35%	0.33%
> 60 < = € 100	0.21%	0.12%
> 100 < = € 250	0.73%	0.67%
> 250 < = € 1,000	36.32%	17.28%
> €1,000	62.35%	81.56%

With respect to the Customer Service activity of Seguros Lagun Aro Vida, S.A., 35 complaints and claims were received in 2019 (25 in 2018) and 35 cases were processed in 2019 (27 in 2018). The main grounds for the claims and complaints were disagreements over compensation and redemptions. The outcome of cases handled in 2019 and 2018 were as follows:

	2019	2018
In favour of the customer	11	15
In favour of the entity	23	10
Others	1	2
	35	27

The cost for the Entity of total complaints and claims favourable to customers amounted to €55,831 in 2019 (€79,461 in 2018). Complaints and claims have on average been addressed within 8.71 days (9 days in 2018).

With respect to the Customer Service activity of Seguros Lagun Aro, S.A., 660 complaints and claims were received during the financial year (696 in 2018) and 658 cases were processed in 2019 (689 in 2018). 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 2019 and 2018 were as follows:

	2019	2018
In favour of the customer	335	316
In favour of the entity	303	361
Others	20	12
	658	689

(Expressed in thousands of euros)

The cost to the Entity of total complaints and claims in favour of customers amounted to €59,927 in 2019 (€43,639 in 2018). The average response time in 2019 was 10.44 days (10 days in 2018).

Concerning the activity of the Customer Service of Caja Laboral Bancaseguros O.B.S.V., S.L.U., 10 complaints and claims were received in 2019 (16 in 2018), and 9 cases were processed during 2019 (19 in 2018). 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 2019 and 2018 was as follows:

	2019	2018
In favour of the customer	-	3
In favour of the entity	-	3
Others	9	13
	9	19

The cost to the Entity of total complaints and claims in favour of customers amounted to 0 euros in 2019 (€0 in 2018). The average response time in 2019 was 0.44 days (2 days in 2018).

15. Credit risk

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

In relation to the latter, the Board of Directors has delegated to the Main Operations Committee the maximum powers for all the amounts and risk figures, as well as the authorisation of defaults without limit on the amount. The Main Committee delegates powers to the Executive Committee, which in turn delegates to the Risk Management Department and the Commercial Network. The network's capacity to sanction risk is based on the level of risk and an alert system that takes into account factors such as the volume of risk, type of product and the margin of the operation.

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

With regard to Domestic and Commercial Credit Risk, all these matters are specified in the Risk Policy Manual, the latest update of which was approved by the Governing Board on 31 January 2020, and other related documents such as: Credit Risk Manual - Summary, and Manual of Good Practices in the Granting of Domestic Risks and MAP

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

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

The Risk Management Department, through the Large Company Risk Analysis and SME Risk Analysis sections, is responsible for the admission process and monitoring of portfolio companies, the Business and Small Company section is responsible for the admission of the aforementioned segments and the private individuals section, for the admission of domestic risk.

The Friendly Agreement and Pre-litigation Recovery section aims to manage the protocols associated with early alerts in companies, as well as to maximise the recoveries of operations in the friendly agreement (< 75 days default) and pre-litigation (> 75 days default) phases.

The Department of Global Risk Control is responsible for the development and maintenance of internal models, as well as for the measurement and control of structural interest and liquidity risks, for the measurement and control of market risks and of operational risk.

Lastly, the Legal Department provides advice and legal documentary hedging for risk operations, both in the initial stages and in possible refinancing or restructuring of debt, as well as the management of recovery proceedings and the legal defence of the Group against claims from customers and third parties.

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 utilize 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. Also, both the scoring and rating models allow the Parent Entity to calculate the associated costs and establish the pricing of the different Private and Company operations.

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 borrowers' 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 and the LTV relationship of the operations is particularly valued. Guarantee in the form of backing is very important, and cash deposits and financial assets as guarantees have lesser specific weighting.

(Expressed in thousands of euros)

- 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 a 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-litigation and litigation) act along with external agents (collection agencies).

In general, the Parent Entity 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 regard to credit risk with financial institutions and private fixed income in the area of Treasury and Capital Markets, the last update of the risk policy was approved by the Governing Board on 31 January 2020, and sets a global limit to the Treasury activity in accordance with the risk appetite of the Parent Company in relation to solvency and the MREL ratio, also establishing limits by counterpart, of concentration by reference and by manager, and by country. To this end, a procedure for allocating limits based on external ratings and an alert system has been implemented.

Below is the breakdown by counterpart of the Loans and advances - Clients (not including "Other financial assets"), as at 31 December 2019 and 2018, with a detail of the amount that is covered by each of the main guarantees and the distribution of the secured financing based on the percentage of the financing book value in relation to the amount of the last appraisal or valuation of the available security:

2019

				Secured loans. Book value in relation to the amount of the last available valuation *(loan to value)*				
	Total	**Of which: Real estate collateral**	**Of which: other collateral**	**Less than or equal to 40%**	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80% and less than or equal to 100%**	**Greater than 100%**
Government Bodies)	769,879	17,010	-	3,629	8,246	-	-	5,136
Other financial companies and individual entrepreneurs (financial business activity)	23,335	5,384	162	2,448	1,673	672	490	263
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down according to purpose)	2,398,965	814,085	12,959	353,500	219,625	142,557	29,747	81,613
– Property construction and development (including land)	44,312	37,112	-	1,532	6,211	10,547	1,686	17,135
– Public works construction	58,034	7,420	17	3,442	1,737	1,836	213	209
– Other purposes	2,296,619	769,553	12,942	348,526	211,677	130,174	27,848	64,269
Large companies	446,056	39,690	431	11,679	4,014	1,611	1,312	21,505
SMEs and individual entrepreneurs	1,850,563	729,863	12,511	336,847	207,663	128,563	26,536	42,764
Other households (broken down by purpose)	10,647,866	9,801,433	16,128	2,711,996	2,969,262	2,712,720	573,997	849,587
– Homes	9,882,505	9,636,513	14,112	2,626,547	2,928,708	2,689,604	569,307	836,459
– Consumer	427,104	32,562	839	22,647	5,522	2,562	1,004	1,667
– Other purposes	338,257	132,358	1,177	62,802	35,032	20,554	3,686	11,461
TOTAL	13,840,045	10,637,912	29,249	3,071,573	3,198,806	2,855,949	604,234	936,599
PRO MEMORIA								
Loan refinancing and restructuring transactions	227,968	180,073	520	34,709	32,904	33,450	18,119	61,411

(Expressed in thousands of euros)

2018

	Total	Of which: Real estate collateral	Of which: other collateral	Secured loans. Book value in relation to the amount of the last available valuation *(loan to value)* Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
Government Bodies	199,449	30,472	-	1,335	14,706	1,352	-	13,079
Other financial companies and individual entrepreneurs (financial business activity)	21,834	2,361	-	1,128	1,233	-	-	-
Non-financial companies and individual entrepreneurs (non-financial financial business)	2,396,684	894,476	10,841	408,931	234,406	133,236	32,777	95,967
– Property construction and development (including land)	61,645	53,687	-	2,448	14,530	6,819	8,164	21,726
– Public works construction	58,728	7,914	21	4,157	1,541	1,962	-	275
– Other purposes	2,276,311	832,875	10,820	402,326	218,335	124,455	24,613	73,966
Large companies	361,576	28,303	459	6,982	1,575	754	1,376	18,075
SMEs and individual entrepreneurs	1,914,735	804,572	10,361	395,344	216,760	123,701	23,237	55,891
Other homes	10,596,188	9,805,297	14,174	2,701,587	2,961,224	2,645,979	551,233	959,448
– Homes	9,865,216	9,628,950	12,258	2,610,236	2,919,734	2,621,132	546,023	944,083
– Consumer	404,934	35,975	654	25,323	5,921	2,314	692	2,379
– Other purposes	326,038	140,372	1,262	66,028	35,569	22,533	4,518	12,986
TOTAL	13,214,155	10,732,606	25,015	3,112,981	3,211,569	2,780,567	584,010	1,068,494
PRO MEMORIA								
Loan refinancing and restructuring transactions	275,081	223,300	512	35,897	48,384	44,289	22,905	72,335

A breakdown of the Parent Entity´s maximum credit risk covered by each of the primary guarantees as at 31 December 2019 and 2018 is set out below:

2019	Real estate collateral	Pledge guarantee	Other security interests	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Balance drawn down	11,770,900	22,313	332,703	676,755	1,960,422	(550,861)	(253,150)	13,959,082
Value of the guarantee	25,849,241	31,257	1,408,777	676,755	83,348	-	-	28,049,378

2018	Real estate collateral	Pledge guarantee	Other security interests	Secured or insured personal guarantee	Unsecured personal guarantee	Unclassified	Valuation adjustments	Total
Customer loans and advances								
Balance drawn down	11,373,919	19,457	350,601	673,872	1,825,511	(649,873)	(358,905)	13,234,582
Value of the guarantee	25,708,831	28,993	1,358,257	673,872	83,600	-	-	27,853,553

The value of the guarantees received to secure payment in connection with customer transactions, distinguishing between collateral and other guarantees as at 31 December 2019 and 2018, is as follows:

Value of guarantees received	**2019**	**2018**
Value of security interests	27,258,018	27,067,088
Of which: doubtful risks guarantees	658,691	766,993
Value of other guarantees	791,360	786,465
Of which: doubtful risks guarantees	36,433	42,556
Total value of guarantees received	**28,049,378**	**27,853,553**

(Expressed in thousands of euros)

The following is information about the value of the financial guarantees granted as at 31 December 2019 and 31 December 2018:

	2019	2018
Loan commitments granted	959,464	989,896
Of which: amount classified as doubtful	*5,923*	*4,610*
Amount recorded under liabilities on the balance sheet	-	-
Financial guarantees granted	207,193	94,871
Of which: amount classified as doubtful	*22,355*	*20,073*
Amount recorded under liabilities on the balance sheet	13,985	12,719
Other commitments granted	304,984	289,202
Of which: amount classified as doubtful	*10,647*	*10,579*
Amount recorded under liabilities on the balance sheet	6,239	6,761

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 detailed models required, the Group includes the following information:

a) Exposure to the construction and real estate promotion sector

Financing for the construction and development of real estate and its hedging as at 31 December 2019 and 2018 is as follows:

	2019		
	Book value gross	**Excess gross exposure on maximum recoverable amount of effective collateral**	**Impairment of the accumulated value**
Financing for construction and real estate development (including land) (businesses in Spain)	**67,403**	**28,607**	**23,091**
Of which: with default / doubtful	31,688	17,237	20,318
Pro memoria:			
Failed assets	302,485		

Pro memoria:	**Amount**
- Loans to customers excluding Public Administration (businesses in Spain)	13,070,153
- Total assets (total businesses)	25,058,420
- Impairment of value and provisions for exposures classified as not doubtful (total businesses)	64,717

	2018		
	Book value gross	**Excess gross exposure on maximum recoverable amount of effective collateral**	**Impairment of the accumulated value**
Financing for construction and real estate development (including land) (businesses in Spain)	**106,580**	**50,793**	**44,935**
Of which: with default / doubtful	71,361	35,910	43,489
Pro memoria:			
Failed assets	361,586		

Pro memoria:	**Amount**
- Loans to customers excluding Public Administration (businesses in Spain)	13,039,763
- Total assets (total businesses)	22,989,333
- Impairment of value and provisions for exposures classified as not doubtful (total businesses)	64,687

(Expressed in thousands of euros)

The following is a breakdown of financing for construction, real estate promotion and home purchase as at 31 December 2019 and 2018:

	Financing for construction and real estate promotion Gross book value	
	2019	**2018**
Without property guarantee	14,053	15,240
With property guarantee	53,350	91,340
Buildings and other finished constructions	36,705	61,441
Home	30,320	52,756
Others	6,385	8,685
Buildings and other constructions in progress	1,555	3,363
Home	1,505	2,667
Others	50	696
Land	15,090	26,536
Urban land	13,750	23,314
Other land	1,340	3,222
Total	67,403	106,580

The breakdown of credit to households for home purchase as at 31 December 2019 and 2018 is as follows:

	2019		**2018**	
	Gross book value	**Of which: doubtful**	**Gross book value**	**Of which: doubtful**
Loans for home purchase	9,630,766	183,423	9,608,398	203,302
Without mortgage guarantee	196,445	3,021	187,625	3,397
With mortgage guarantee	9,434,321	180,402	9,420,773	199,905

The breakdown of credit with mortgage guarantee to households for home purchase in accordance with the percentage that the total risk represents of the amount of the latest official valuation available as at 31 December 2019 and 2018 is as follows:

	Gross book value in relation to the amount of the last valuation *(loan to value))*					
	2019					
	Less than or equal to 40	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80 %**	**Greater than 80% and less than or equal to 100 %**	**Greater than 100 %**	**Total**
Gross book value	2,460,989	2,873,379	2,667,388	567,064	865,501	9,434,321
Of which: with default/doubtful	13,372	23,043	27,217	27,737	89,033	180,402

	Gross book value in relation to the amount of the last valuation *(loan to value))*					
	2018					
	Less than or equal to 40	**Greater than 40 % and less than or equal to 60 %**	**Greater than 60% and less than or equal to 80 %**	**Greater than 80% and less than or equal to 100 %**	**Greater than 100 %**	**Total**
Gross book value	2,436,180	2,865,141	2,601,704	547,811	969,937	9,420,773
Of which: with default/doubtful	14,684	22,211	32,887	28,235	101,888	199,905

(Expressed in thousands of euros)

The breakdown of assets received in payment of debt as at 31 December 2019 and 2018 is as follows:

	2019		2018	
	Gross book value	Accumulated impairment value	Gross book value	Accumulated impairment value
Real estate assets from financing of construction and real estate promotion	**664,710**	**486,640**	**699,020**	**509,213**
Buildings and other finished constructions	45,832	31,694	74,250	43,763
Home	13,054	7,061	28,364	12,243
Others	32,778	24,633	45,886	31,520
Buildings and other constructions in progress	141,199	72,407	119,359	73,086
Home	106,601	53,276	118,913	72,672
Others	34,598	19,131	446	414
Land	477,679	382,539	505,411	392,364
Urban land	224,777	183,737	230,644	183,571
Other land	252,902	198,802	274,767	208,793
Real estate assets from mortgage financing to households for home purchase	**28,950**	**8,424**	**31,670**	**8,580**
Other real estate assets foreclosed or received in payment of debts	**43,740**	**18,243**	**28,509**	**7,248**
Equity instruments foreclosed or received in payment of debts	**-**	**-**	**-**	**-**
Equity instruments of entities holding foreclosed real estate assets or received in payment of debt	**-**	**-**	**-**	**-**
Financing to entities holding foreclosed real estate assets or received in payment of debts	87	1	34	1
Total	**737,487**	**513,308**	**759,233**	**525,042**

The value of guarantees received linked to financing for construction and real estate development as at 31 December 2019 and 2018 is as follows:

Value of guarantees received– Construction and real estate development	**2019**	**2018**
Value of security interests	194,072	288,196
Of which: doubtful risks guarantees	*87,596*	*145,387*
Value of other guarantees	3,525	1,311
Of which: doubtful risks guarantees	*486*	-
Total value of guarantees received	**197,597**	**289,507**

The value of the financial guarantees granted for operations for construction and real estate development as at 31 December 2019 and 2018 is as follows:

	2019	**2018**
Financial guarantees granted for construction and real estate development	30,645	26,013
Amount recorded under liabilities on the balance sheet	1,986	2,013

In compliance with Law 8/2012, as at 31 December 2019 and 2018, the Parent Entity maintained the real-estate assets derived from financing of construction and property development in various asset management companies. Percentage interest and details are provided in Annex I of the Notes to these consolidated annual accounts.

The foreclosure value of the assets in said companies as at 31 December 2019 and 2018 amounted to 511,236 thousand euros and 566,598 thousand euros, respectively. As at 31

December 2019, the balance of financing and capital or shareholder contributions to said companies amounted to 511,236 thousand euros and 113,218 thousand euros, respectively (566,598 and 93,883 thousand euros, respectively, as at 31 December 2018) which at said date recorded an impairment adjustment of 399,148 and 70,375 thousand euros, respectively (429,220 and 64,840 thousand euros, respectively, as at 31 December 2018).

b) Refinancing transactions

The risk restructuring policy approved by the Parent Entity defines transaction restructuring as a risk management instrument designed to facilitate an amicable recovery. Thus, a distinction is made between refinancing operations which involve the granting of a new operation to cancel an existing one, and restructured operations or novations by means of which one or more of the conditions of an open operation are amended.

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 various sections.

No refinancing and/or restructuring operation may be qualified, for the purposes of uncertainty, as normal; the types of classification may be:

A) Standard subject to special monitoring

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

B) Doubtful as a result of borrower arrears

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

C) Doubtful for reasons other than borrowing arrears

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

Hedging of credit risk loss (necessary provisioning) will be made by collective estimation, except those considered "significant" (3 million euros, this being the threshold applied for doubtful operations or those under special surveillance) or have been classified as Doubtful for reasons other than late payments due to non-automatic factors. In these cases, the provision will be estimated through individualised analysis.

The Risk Analyst will have a proposed provision obtained from the model for the individualised estimate and will then establish the required provision based on the model proposal and knowledge of the operation.

In line with the requirements of IFRS 9 and in compliance with the amendments introduced by Circular 6/2012, of 28 September, and Circular 4/2017, of 27 November, defining the criteria for classifying operations as refinancing operations, refinanced operations and restructured operations and, following the policies set by the Parent Entity in this respect, below is the breakdown as at 31 December 2019 and 2018 of refinancing, refinanced and restructured operations:

(Expressed in thousands of euros)

2019 Financial year

	TOTAL							Of which: with defaults/doubtful						
	Without collateral security		With collateral security				Accumulated impairment value	Without collateral security		With collateral security				Accumulated impairment value
					Maximum amount of collateral security that can be considered							Maximum amount of collateral security that can be considered		
	Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities		Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Bodies	-	-	2	7,247	7,247	-	(3,344)	-	-	1	6,688	6,688	-	(3,344)
Other financial companies and individual entrepreneurs (financial business))	7	48	5	408	408	-	(33)	5	27	3	325	325	-	(31)
Non-Financial institutions and individual entrepreneurs (non-financial business)	1,069	66,546	627	162,250	89,775	415	(97,975)	730	27,130	477	134,448	65,862	336	(89,171)
Of which: financing for construction and development (including land)	*4*	*767*	*53*	*25,563*	*21,221*	-	*(12,062)*	*4*	*767*	*40*	*15,309*	*13,930*	-	*(9,687)*
Other homes	719	7,695	1,256	117,119	98,244	5	(31,993)	451	4,861	932	91,443	75,398	-	(30,896)
TOTAL	**1,795**	**74,289**	**1,890**	**287,024**	**195,674**	**420**	**(133,345)**	**1,186**	**32,018**	**1,413**	**232,904**	**148,273**	**336**	**(123,442)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2018 Financial year

	TOTAL							Of which: with defaults/doubtful						
	Without collateral security		With collateral security				Accumulated impairment value	Without collateral security		With collateral security				Accumulated impairment value
					Maximum amount of collateral security that can be considered							Maximum amount of collateral security that can be considered		
	Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities		Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Bodies	-	-	10	11,221	7,184	-	(1,909)	-	-	1	6,916	5,007	-	(1,909)
Other financial companies and individual entrepreneurs (financial business))	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Financial institutions and individual entrepreneurs (non-financial business)	1,175	73,148	763	215,598	83,143	164	(135,796)	961	31,006	584	186,930	58,398	60	(127,463)
Of which: financing for construction and development (including land)	*7*	*659*	*79*	*51,855*	*21,094*	-	*(29,387)*	*6*	*656*	*67*	*48,237*	*18,502*	-	*(28,362)*
Other homes	915	9,461	1,497	143,530	103,834	10	(40,172)	600	6,137	1,101	109,888	73,248	2	(38,780)
TOTAL	**2,090**	**82,609**	**2,270**	**370,349**	**194,161**	**174**	**(177,877)**	**1,561**	**37,143**	**1,686**	**303,734**	**136,653**	**62**	**(168,152)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(Expressed in thousands of euros)

Below is the breakdown as at 31 December 2019 and 2018 of the gross amounts of operations classified as doubtful during the year subsequent to their refinancing or restructuring:

	2019		
	Gross amount		
	Full property mortgage guarantee	Other collateral securities	Without collateral security
Government Bodies	-	-	-
Other legal persons and individual entrepreneurs	5,604	-	3,080
Of which: Financing for construction and development	*117*	-	-
Other physical persons	10,286	-	369

	2018		
	Gross amount		
	Full property mortgage guarantee	Other collateral securities	Without collateral security
Government Bodies	-	-	-
Other legal persons and individual entrepreneurs	7,636	-	6,323
Of which: Financing for construction and development	*3,656*	-	-
Other physical persons	8,048	-	459

The value of guarantees received to ensure payment of refinancing and restructuring operations, distinguishing between collateral guarantees and other guarantees as at 31 December 2019 and 2018 is as follows:

Value of guarantees received – Refinancing	**2019**	**2018**
Value of security interests	518,027	601,215
Of which: doubtful risks guarantees	377,170	464,496
Value of other guarantees	44,309	52,376
Of which: doubtful risks guarantees	20,481	25,237
Total value of guarantees received	**562,336**	**653,591**

The detailed movement of refinancing and restructuring operations, net of the associated provisions, during 2019 and 2018 is as follows:

	2019	**2018**
Opening balance	**275,081**	**304,602**
(+)/(-) Incoming / Outgoing refinancing and restructuring within the period	(32,844)	2,974
Pro-memoria: impact recorded in profit and loss account of the period	*(29,665)*	*(8,913)*
(-) Debt repayments	(25,306)	(32,825)
(-) Foreclosures	(2,036)	(4,749)
(-) Balance sheet derecognition (reclassification to write-offs)	(3)	(3)
(+)/(-) Other variations	13,076	5,082
Balance at year end	**227,968**	**275,081**

16. Liquidity risk

There are two different definitions of liquidity risk:

- Fund liquidity risk: the risk that the Parent Company may not be able to efficiently meet expected and unforeseen cash flows, present and future, as well as guarantee provisions resulting from its payment obligations, without its daily operations or financial situation being affected.

- Market liquidity risk: 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 regard, Laboral Kutxa has a Liquidity Risk Policies and Procedures Manual approved by its Governing Board, which complies with the "Principles for the Appropriate Management and Supervision of Liquidity Risk" (September 2008 document) of the Basel Committee on Banking Supervision, and establishes various liquidity objectives as well as a Contingency Plan that includes alert levels and action protocols. It is also worth mentioning that in 2015 the Parent Entity also prepared the Risk Appetite Framework, which is the subject of a systematic process of authorization and improvement, in which the different tolerance thresholds for certain key liquidity risk indicators are included and, furthermore, the Recovery Plan, which updates the aforementioned alert levels and action protocols relating to situations of liquidity crisis.

Based on the tasks set out in the procedures, liquidity management is supported by a control system that, on the one hand, sets limits on certain key indicators and medium-term liquidity targets for the above and additional indicators and, on the other, systematically monitors the degree of compliance with these limits and targets. These limits and targets are monitored on the basis of a monthly updated financing plan containing forecasts of the performance of investible funds, lending and wholesale funding, which determine the performance of the indicators subject to the limits and targets, enabling the ALCO to have permanently updated information on the foreseeable performance of both these indicators and liquidity in general over the medium term. The ALCO therefore has time to prepare appropriate actions to correct any imbalances in the evolution of aggregates affecting liquidity. Liquidity objectives include Available liquid assets and various liquidity ratios including the liquidity coverage ratio (LCR), which at year-end 2018 reached very high levels in the Parent Entity, well above the limit stipulated by the regulator for 1 January 2018.

Specifically, at year-end 2019, the Parent Entity has:

- An LCR of 527%.

- Liquid discountable (and available) assets in the European Central Bank (ECB) of 5,537 million euros (following the application of haircuts), which allow unexpected contingencies to be addressed. Of this amount, 786 million euros are available as an ECB credit facility and 4,751 million euros are eligible assets in the ECB which can be drawn down by means of a pledge. Over the year, the Parent Entity has maintained high positive net liquidity levels. Moreover, in March 2017 the Parent Entity obtained an amount of 300 million euros in the framework of the ECB's TLTRO II long-term financing operations, although this did not entail an increase in liquidity, as it was obtained by pledging collateral.

(Expressed in thousands of euros)

- Additionally, the Parent Entity has approximately 680 million euros, net of haircuts, in liquid assets not discounted in the ECB, but easily convertible into liquidity.

- A balance in the current account of the Bank of Spain of 1,624.9 million euros, of which 187.9 correspond to the cash ratio (Note 22).

- A Loan to Deposits Ratio standing at 68%.

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

  - With an amount of 1,425 million euros, which represents 6% of the total balance. This amount includes Market bonds and money taken from the ECB, and excludes Bonds for treasury shares, Securitisations and ICO financing, as their maturity flows are matched to those corresponding to the assets they finance.

  - Diversified with respect to financing sources. Thus, at year-end Caja Laboral had issued mortgage bonds (excluding treasury shares) amounting to 1,125 million euros and money taken (TLTRO II) from the ECB amounting to 300 million euros (Note 35). The Parent Entity also has financing on the market through the securitisation of mortgage bond holdings (discounting the tranches acquired by the Entity itself) for an amount of 110 million euros, and 6 million euros with respect to financing obtained through the ICO, although, as mentioned above, neither the ICO Financing nor the Securitisations require refinancing at maturity.

  - Diversified with respect to maturity. Thus, the Mortgage Bonds are produced from 2020 onwards, and in a diversified manner, and the ECB financing is due to mature in March 2021.

The financing structure of the Parent Entity is distributed in accordance with the following breakdown:

	2019	
Financing structure	**Million €**	**%**
Customer deposits	18,662	76.51
Mortgage bonds (1)	1,125	4.61
ECB taken	300	1.23
Securitisations (1)	110	0.45
ICO and EIB financing	6	0.03
Total Assets	24,390	

(1) Treasury stock is excluded

As for the distribution by maturity of the wholesale financing, we must point out that it takes place from the year 2020 according to the following breakdown:

	Million €			
Maturities of wholesale issues	**2020**	**2021**	**2022**	**> 2022**
Mortgage Bonds	500	625	-	-
Territorial Bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	16	15	14	65
ECB taken	-	300	-	-
ICO and EIB financing	2	1	1	2
	518	941	15	67

Liquidity needs in the medium-term are amply covered by the financing capacities. Thus, the attached tables show the Net Liquid Assets available after the application of "haircuts" and the Issuing Capacity of the Parent Company:

	Million €	
	31.12.2019	
	Drawn	**Available**
Net Liquid assets (2)	300	6,217

(2) Bank of Spain liquidity statements criteria (excluding equity instruments)

Issue Capacity	**Million €**
Issue capacity of Mortgage Bonds	4,836
Issue capacity of Territorial Bonds	136
Available in issues guaranteed by the State	-
	4,972

The attached table contains an analysis (in millions of euros) of the assets and liabilities of the Parent Company grouped by their residual maturity in accordance with the criteria of the liquidity statements sent to the Bank of Spain (excluding overdue balances, doubtful loans, foreclosures and non-performing):

2019

DISTRIBUTION OF ASSETS AND LIABILITIES BY TERM TO MATURITY

	Million €							
	Total balance	**On demand**	**Up to 1 month**	**More than 1 month up to 3 months**	**More than 3 months up to 6 months**	**More than 6 months up to 1 year**	**More than 1 year up to 5 years**	**More than 5 years**
TOTAL inflows	23,487	1,448	264	392	697	725	7,014	12,947
TOTAL outflows	(21,873)	(18,056)	(1,734)	(193)	(636)	(220)	(1,018)	(16)
Net	1,614	(16,608)	(1,470)	199	61	505	5,996	12,931

(Expressed in thousands of euros)

2018

DISTRIBUTION OF ASSETS AND LIABILITIES BY TERM TO MATURITY

	Million €							
	Total balance	On demand	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year 5 years	More than 5 years
TOTAL inflows	18,886	90	509	455	635	1,391	5,083	10,723
TOTAL outflows	(19,826)	(15,287)	(1,086)	(385)	(426)	(1,009)	(1,573)	(60)
Net	(940)	(15,197)	(577)	70	209	382	3,510	10,663

17. Interest rate risk

Interest rate risk refers to losses that may arise in the Profit and Loss Account and in the Equity Value of the Parent Company as a consequence of an adverse movement in interest rates.

The Governing Board has delegated to the Assets and Liabilities Committee (ALCO) the function of managing this risk, within the limits set by the Board, which are reviewed each year. These limits are established in terms of the maximum permissible loss between two interest rate scenarios: market and unfavourable.

The ALCO systematically analyses exposure to the interest rate risk and through active management, attempts to anticipate through its decisions the negative impact that undesired changes in market interest rates may have on the profit and loss account in the medium term. Its decisions are supported by measuring the results of the Parent Company in the long term under different interest rate scenarios, carried out by means of simulations that deal with structural balance sheet and off-balance sheet 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 of the assumptions implicit in the gap, it should be noted that at Caja Laboral it is not the measurement technique used to measure the aforementioned risk, which is described in the preceding paragraph.

	Million €								
	Balance on balance sheet as at 31/12/19	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Sensitive assets	24,009	4,884	2,920	7,375	1,581	676	1,070	1,916	3,587
Money market	1,857	1,857	-	-	-	-	-	-	-
Credit market	14,264	2,597	2,905	5,757	454	362	285	221	1,684
Securities market	7,888	430	15	1,619	1,127	314	785	1,694	1,904
Sensitive liabilities	21,862	7,708	2,027	*4,190*	*454*	*13*	*14*	*28*	*7,427*
Wholesale market	2,099	670	528	505	399	(4)	-	-	-
Other creditors	19,763	7,038	1,499	3,685	55	16	14	28	7,427
Simple GAP		(2,824)	893	3,186	1,127	663	1,056	1,887	(3,840)
% of total liabilities		(12%)	4%	13%	5%	3%	4%	8%	(16%)
Cumulative GAP		(2,824)	(1,932)	1,254	2,381	3,043	4,099	5,986	2,146
% of total liabilities		(12%)	(8%)	5%	10%	13%	17%	25%	9%

(Expressed in thousands of euros)

	Million €								
	Balance on balance sheet as at 31/12/2018	Up to 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years
Sensitive assets	21,303	4,844	3,486	8,602	619	1,057	291	364	2,040
Money market	1,681	1,681	-	-	-	-	-	-	-
Credit market	14,123	2,694	3,044	5,874	403	304	252	225	1,327
Securities market	5,499	469	442	2,728	216	753	39	139	713
Sensitive liabilities	19,930	6,442	1,901	4,284	96	422	22	6,763	-
Wholesale market	1,764	227	526	608	4	399	-	-	-
Other creditors	18,166	6,215	1,375	3,676	92	23	22	6,763	-
Simple GAP		(1,598)	1,585	4,318	523	635	269	(6,399)	2,040
% of total liabilities		(8%)	7%	20%	2%	3%	1%	(30%)	10%
Cumulative GAP		(1,598)	(13)	4,305	4,828	5,463	5,732	(667)	1,373
% of total liabilities		(8%)	(0%)	20%	23%	26%	27%	(3%)	6%

Those items with an associated contractual interest rate are considered to be 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.

Within the aforementioned gap, the items considered sensitive are distributed among the different time periods in accordance with the criteria set out below. Variable interest rate products are placed in the time segment corresponding to the time at which their interest rate will be reviewed (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. Statistical 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 Parent Entity for the Supervisor, a fall of 200 basis points in interest rates would cause a reduction of approximately 8,36% in net interest income in year one. The criteria established by the Supervisor for the preparation of these analyses are basically the maintenance of initial balances and structure of balance, the evolution of interest rates in accordance with market expectations, the limit of 5 years for the non-interest-bearing current accounts and administered accounts, and a floor for market interest rates ranging between -1% and 0% for on-demand and 20 year terms, respectively.

Regarding the impact on economic value, a decrease of 200 basis points in interest rates would generate a 82.5 million euros reduction in the economic value of the Parent Entity, that is, around 4.88% of its equity. Furthermore, an increase of the same magnitude would increase the Parent Entity’s economic value by 74,3 million euros, 4,40% of its Equity. The criteria used to calculate the Equity Value are the same as those previously mentioned in the interest rate gap section. In this regard, it should be noted that the EBA is expected to submit new draft technical standards for interest rate risk regulation to the European Commission no later than June 2020.

18. Other market risks

After 2018 ended negatively as a result of the global stock market declines in the last quarter, the year began with gloomy expectations for the markets, expectations that would soon become more promising due to the radical change in the EDF rhetoric, which ultimately meant that 2019 would be an excellent year for risk assets and in which all categories of underlying assets (except for euro liquidity) would record significant returns, in clear contrast to 2018 when there was hardly any refuge for investors.

Paradoxically, with regard to the evolution of macroeconomic variables, 2019 closed with GDP growth clearly slowing down at the global level, reaching 3%, down 6 tenths of a point from the previous year. Unlike the previous year, the slowdown was widespread in the main geographical areas, although growth differences remained. Thus, within the large economic areas, the US economy reduced its growth by 0.6% to 2.3%, the emerging countries once again registered higher growth than the developed countries, reaching 3.9% (6 tenths less than the previous year), while on the negative side, the Euro Area once again stood out with growth of 1.2% and a slowdown of 7 tenths with regard to 2018.

Geopolitical factors made a decisive contribution to this greater than expected slowdown, particularly the US-China trade war triggered by the US administration and, to a lesser extent, Brexit. These factors were present throughout the year, generating uncertainty that resulted in the standstill of numerous investment projects and the decline in world trade. Fortunately, friendly, non-disruptive agreements had been reached in both conflicts at the end of the year, although the uncertainty generated had already taken its toll in terms of activity, especially in the manufacturing sector.

To mitigate the effects of this situation, the performance of central banks, particularly the EDF, was once again decisive. The Federal Reserve closed the year 2018 embarked on its process of "standardisation" of monetary policy. Its position was that high growth rates (around 3%) and unemployment levels close to historical lows did not justify the maintenance of extraordinary monetary policy measures (adopted at the time to mitigate the effects of the recession) and it was therefore necessary to standardise its policy by raising rates and reducing its balance. This process was maintained throughout 2018 with 4 rate increases and the non reinvestment of the maturities of the assets purchased in their QE programmes. This was until the fall of the stock exchanges in the last quarter of 2018 made the EDF reconsider and announced at the beginning of 2019 that it would not continue to raise the rates (when theoretically here was still more progress to be made) and that from the 4th quarter it would resume the reinvestment of maturities, thus setting a limit to the reduction of its balance. But this was not all. In the second half of the year, it undertook three reductions in its intervention rate and, in order to alleviate the tensions that were occurring in the interbank market, it began to buy short-term assets, leading it to increase its balance sheet once again until it recovered more than half of the reduction that it had accumulated since the beginning of 2018. Undoubtedly a decisive intervention.

Meanwhile, the ECB joined the new wave of monetary stimulus and in September announced that it would lower its deposit facility rate to -0.50% (from -0.40%) and that in the last quarter it would resume its purchase programme (QE) that had ended in December 2018, announcing that it would be maintained for a long period of time and in any case until shortly before it began to raise rates.

In addition, the Central Banks of China and Japan also contributed to monetary relaxation through various interventions throughout the year.

In this situation, and despite the greater economic slowdown than expected, the markets for risk assets performed excellently, which shows how dependent the markets are on the actions of the Central Banks. In a year (2018) in which the main Central Bank (the EDF) tightened its monetary policy, the stock markets fell (year in which the growth of the economies was higher than in 2019). This year when the same Central Bank relaxed its monetary policy, there was a rise in the stock markets (year in which the growth of the economies was lower than in 2018).

The intervention of central banks in the markets through the purchase of assets and the reductions in their intervention rates is lowering the returns on risk-free assets, forming a scenario in which the absence of alternatives is forcing investors to take greater risks than desired, investing in those assets that offer some return regardless of whether their valuations are fair or not, because it is trusted that the central banks will always be there to rescue the markets if necessary.

As long as there is some economic growth (even if it is not very high but allows companies to grow somewhat in profits), inflation will remain moderate in a narrow range (neither inflation nor deflation) which in turn allows central banks to maintain very accommodating monetary policies, as long as there remains a high percentage of risk-free assets trading at negative rates and volatilities remain relatively low...the pressure (or incentive) for investors to take greater risks will remain high, leading to behaviour that is unlikely to be very sustainable over time.

In this environment of support from central banks, risk assets performed excellently in virtually all categories. Thus the main indices of variable income closed with generalised increases, although with some variation between them. The best relative behaviour was again recorded by the US indices (S&P500 registered +28.88% and Nasdaq, +35.23%); European indices did well overall (Eurostoxx50 rose +24.78%), except the IBEX35 that fell behind (with +11.82%) while the emerging markets lagged slightly behind (MSCI Emerging Markets +15.42%).

Widespread sell-offs in private fixed-income spreads (higher in underlying assets of poorer credit quality) as well as declines in interbank rate curves led to high returns in almost all categories. In Europe, the Iboxx index of investment grade corporates ended with a return of +6.3%, high yield with +10.7% and bank subordinates with +10.3%. Meanwhile, the Credit Suisse emerging markets index rose +13.4% and the JP Morgan Emerging Markets Government Bonds Index climbed +14.4%. Lastly, the Barclays US aggregate corporate and corporate high yield indices recorded a rise of +14.5% and +14.3%, respectively.

Profits were also widespread in government bond markets. Among the markets that performed best were the peripheral countries, which saw the greatest declines in the tires, which allowed their benchmark indexes to close the year with high returns, as shown by the Iboxx Spanish and German public debt indices, which registered +10.5% and +8.6% increases, respectively. The US public debt market also recorded revaluations, with an increase of +6.9% at the end of the year (according to the Barclays index).

In these circumstances, the securities included in the different portfolios that are recorded at fair value with changes both in equity and in profit and loss have behaved in line with the market evolution, which has been reflected in the balance of net capital gains and losses included in the valuation adjustment accounts, as well as in the financial operations income.

19. Operational Risk

This is the risk of incurring losses due to insufficient or failing 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 Parent Entity has risk maps and controls in all departments. Every year, a self-assessment of these risks is made and then action plans are launched to mitigate the most critical ones.

The Parent Entity has a network of 56 coordinators and 28 validators to perform the functions required by the system (self-assessments and action plans).

On a quantitative level, the Parent Company has an internal database of operational 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 belongs to the CERO Group (Spanish Operational Risk Consortium), in which the main financial entities are represented at state level and which shares information and experience related to operational risk.

20. Insurance operation risk

Risks relating to the underwriting of insurance contracts 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 claims and therefore the cash outflow from claims payments. The Group periodically adapts its technical bases by adapting the mortality and survival tables to the most recent data provided by national and international sector working groups and by the statistics approved by the Directorate General of 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. The PASEM-2010 tables are used for new business death risks and the PEAIM-2007 tables for disability risks. 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 from 1 January 1999.

For policies with guaranteed technical interest rates in force before the entry into force of the Private Insurance Regulations - Royal Decree 2486/1998 of November 20, hereinafter the Regulations, the Group applies the provisions of the Second Transitional Provision of said Regulations, verifying that the real yield obtained by the investments affected by these policies is higher than the technical interest rate included in the policies.

The Group complies with the provisions of the Regulation, applying the different valid methodologies for calculating provisions:

- For some portfolios, Article 33.2 is accepted, applying immunisation.
- For other portfolios, the fifth Additional Provision of the 2016 Regulation is followed, applying the risk-free curve including the component related to the volatility

adjustment, following a linear calculation method until the adaptation period set at 10 years from 31/12/2015.

- For contracts concluded as of 1/1/2016, the risk-free curve directly applies, including the component related to the volatility adjustment.

In all portfolios, it monitors asset and liability flow projections and systematically controls that the Real Return on Assets exceeds the Average Return on Mathematical Provisioning.

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.

It is not considered that there is a significant concentration of risk due to the fact that the Group's insurance business is mainly based on insuring the personal risks of individuals and therefore, except for catastrophic risk, which is already covered by the Insurance Compensation Consortium, the level of risk is low.

The calculation of the Provision for Benefits is carried out in accordance with the provisions of the Private Insurance Regulations.

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

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

The Parent Entity's directors also confirm that the Group's insurance companies are in continuous compliance with capital requirements and technical provisioning 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 a subject or group may exceed 25% of its 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 counterpart that are consistent with these requirements, as well as excess control procedures.

As at 31 December 2019 and 2018, 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.
The Group's concentrations of risk by geographic area (where the exposure is located) and by counterpart category, showing the book value of these exposures as at 31 December 2019 and 2018, were as follows:

(Expressed in thousands of euros)

2019

	Total (book value) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,374,691	1,796,455	554,013	19,158	5,065
Government Bodies	8,334,089	7,632,775	701,314	-	-
– Central Government	7,802,647	7,102,066	700,581	-	-
– Other public administrations	531,442	530,709	733	-	-
Other financial companies and individual entrepreneurs	254,419	191,940	35,008	5,777	21,694
Non-financial companies and individual entrepreneurs	2,738,001	2,682,125	41,708	12,100	2,068
– Construction and real estate development	68,348	68,348	-	-	-
– Public works construction	126,869	126,866	3	-	-
– Other purposes	2,542,784	2,486,911	41,705	12,100	2,068
Large companies	569,923	523,313	34,563	10,929	1,118
SMEs and individual entrepreneurs	1,972,861	1,963,598	7,142	1,171	950
Other homes	10,656,960	10,640,005	12,695	2,649	1,611
– Homes	9,882,506	9,866,237	12,281	2,416	1,572
– Consumer	427,103	426,735	246	84	38
– Other purposes	347,351	347,033	168	149	1
TOTAL	24,358,160	22,943,300	1,344,738	39,684	30,438

2018

	Total (book value) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	2,044,340	1,579,971	445,482	14,838	4,049
Government Bodies	6,644,178	6,074,433	569,745	-	-
– Central Government	6,241,641	5,672,624	569,017	-	-
– Other public administrations	402,537	401,809	728	-	-
Other financial companies and individual entrepreneurs	175,510	104,976	32,122	15,948	22,464
Non-financial companies and individual entrepreneurs	2,751,370	2,695,306	49,581	4,980	1,503
– Construction and real estate development	91,764	91,764	-	-	-
– Public works construction	119,561	119,440	121	-	-
– Other purposes	2,540,045	2,484,102	49,460	4,980	1,503
Large companies	509,133	461,205	43,631	3,712	585
SMEs and individual entrepreneurs	2,030,912	2,022,897	5,829	1,268	918
Other homes	10,605,335	10,584,500	15,902	2,987	1,946
– Homes	9,865,216	9,845,352	15,177	2,752	1,935
– Consumer	404,934	404,654	235	34	11
– Other purposes	335,185	334,494	490	201	-
TOTAL	22,220,733	21,039,186	1,112,832	38,753	29,962

(a) The definition of exposures includes loans and advances, debt securities, equity instruments, derivatives (held for trading and hedging), investments in joint ventures and associates, and guarantees granted, regardless of the item in which they are included on the balance sheet.

The geographic breakdown by area is made on the basis of the country or Spanish regional government of residence of the borrower, securities issuer and counterparts of the derivatives and guarantees granted.

(Expressed in thousands of euros)

2019

Business in Spain	Total (book value) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque Country	Navarra	Madrid	Others
Central Banks and credit institutions	1,796,455	43,865	-	1,663,572	89,018
Government Bodies	7,632,775	229,140	6,258	271,141	7,126,236
– Central Government	7,102,066	-	-	-	7,102,066
– Other public administrations	530,709	229,140	6,258	271,141	24,170
Other financial companies and individual entrepreneurs	191,940	119,004	1,326	65,673	5,937
Non-financial companies and individual entrepreneurs	2,682,125	1,649,476	271,595	191,727	569,327
– Construction and real estate development	68,348	48,962	2,658	121	16,607
– Public works construction	126,866	80,825	7,476	27,341	11,224
– Other purposes	2,486,911	1,519,689	261,461	164,265	541,496
Large companies	523,313	347,865	51,475	52,009	71,964
SMEs and individual entrepreneurs	1,963,598	1,171,824	209,986	112,256	469,532
Other homes	10,640,005	6,242,705	1,234,198	439,694	2,723,408
– Homes	9,866,237	5,706,372	1,150,251	424,079	2,585,535
– Consumer	426,735	265,282	50,992	11,626	98,835
– Other purposes	347,033	271,051	32,955	3,989	39,038
TOTAL	22,943,300	8,284,190	1,513,377	2,631,807	10,513,926

2018

Business in Spain	Total (book value) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque Country	Navarra	Madrid	Others
Central Banks and credit institutions	1,579,971	27,217	-	1,499,608	53,146
Government Bodies	6,074,433	191,208	9,123	187,984	5,686,118
– Central Government	5,672,624	-	-	-	5,672,624
– Other public administrations	401,809	191,208	9,123	187,984	13,494
Other financial companies and individual entrepreneurs	104,976	60,376	618	36,391	7,591
Non-financial companies and individual entrepreneurs	2,695,306	1,653,505	250,443	218,497	572,861
– Construction and real estate development	91,764	60,853	4,801	7,685	18,425
– Public works construction	119,440	69,768	6,524	34,581	8,567
– Other purposes	2,484,102	1,522,884	239,118	176,231	545,869
Large companies	461,205	311,527	23,626	62,192	63,860
SMEs and individual entrepreneurs	2,022,897	1,211,357	215,492	114,039	482,009
Other homes	10,584,500	6,130,198	1,236,735	497,461	2,720,106
– Homes	9,845,352	5,735,152	1,156,318	367,091	2,586,791
– Consumer	404,654	252,402	47,898	11,260	93,094
– Other purposes	334,494	142,644	32,519	119,110	40,221
TOTAL	21,039,186	8,062,504	1,496,919	2,439,941	9,039,822

(a) The definition of exposures includes loans and advances, debt securities, equity instruments, derivatives (held for trading and hedging), investments in joint ventures and associates, and guarantees granted, regardless of the item in which they are included on the balance sheet.

The following notes provide details of the Group's risk concentration by type of transaction, business and geographical area, currency, risk quality, etc.

(Expressed in thousands of euros)

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

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Cash	77,325	67,318
Cash balances at central banks	1,624,987	1,395,458
Other on demand deposits	43,370	110,570
	1,745,682	1,573,346
By currency:		
In Euro	1,737,105	1,561,278
In US dollars	7,063	8,340
Swiss francs	145	127
Pounds sterling	688	2,306
Japanese yen	538	114
Others	143	1,181
	1,745,682	1,573,346

The average rate of interest per annum in 2019 and 2018 on cash balances at central banks and other demand deposits amounted to -0,22% and -0,27%, respectively.

Under EC Regulation 1745/2003 of the European Central Bank, credit institutions in EU Member States are required to comply with a minimum reserve ratio of 1% as at 31 December 2019 and 2018, respectively, calculated on the basis of their qualifying liabilities as determined in said Regulation. As at 31 December 2019 and 2018, part of the balance of the current account held with the Bank of Spain was affected by compliance with the minimum reserve ratio, with the Parent complying with the minimum requirements for this ratio under current regulations.

23. Financial assets and liabilities held for trading

The breakdown of these items in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
Derivatives	2,173	4,342	1,215	1,893
Equity instruments	576	494	-	-
Debt securities	44,317	122,275	-	-
	47,066	127,111	1,215	1,893

During 2019, "Financial assets held for trading" fell by around 80 million euros, due mainly to sales of debt issued by the State and Regional Governments. During 2018, Financial assets held for trading fell by around 17 million euros due mainly to sales of Debt issued by the State and Regional Governments.

The fair value of the items included in Financial assets and liabilities held for trading, as at 31 December 2019 and 2018, as well as the measurement techniques applied, are set out in Note 41.

(Expressed in thousands of euros)

The effect on the consolidated profit and loss accounts for the years ended 31 December 2019 and 2018 of changes in the fair value of items included in Financial assets and liabilities held for trading is as follows (Note 51):

	Profit		Loss	
	2019	2018	2019	2018
Derivatives	14,840	48,649	20,601	62,448
Equity instruments	575	315	485	358
Debt securities	47,898	47,458	41,455	33,547
	63,313	96,422	62,541	96,353

The breakdown based on the criterion for determining the fair value of the effect on the consolidated profit and loss accounts for the years ended 31 December 2019 and 2018 resulting from changes in fair value of the financial assets and liabilities held for trading is as follows:

	Profit		Loss	
	2019	2018	2019	2018
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	49,278	47,773	43,252	33,905
Estimated through a measurement technique based on:				
Market-based data (Level 2)	14,035	48,649	19,289	62,448
Non-market-based data (Level 3)	-	-	-	-
	63,313	96,422	62,541	96,353

The breakdown by currency and maturity of the balances included under Financial assets and liabilities held for trading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
By currency:				
In Euro	47,028	127,096	1,177	1,873
In US dollars	38	15	38	20
	47,066	127,111	1,215	1,893
By maturity:				
Up to 1 month	313	117	154	50
Between 1 month and 3 months	260	157	92	131
Between 3 months and 1 year	190	791	234	200
Between 1 year and 5 years	21,968	33,800	432	436
More than 5 years	23,759	91,752	303	1,071
Maturity not determined	576	494	-	5
	47,066	127,111	1,215	1,893

(Expressed in thousands of euros)

a) Credit risk

The concentrations of risk by geographical sector where the risk is located, by type of counter-party and by type of instrument, indicating the book value of the instruments at those dates, were as follows:

	2019		2018	
	Amount	%	Amount	%
By geographical area:				
Spain	38,167	81.09%	126,761	99.72%
Other European Union countries	8,899	18.91%	350	0.28%
Rest of the world	-	-	-	-
	47,066	100.00%	127,111	100.00%
By counter-party categories:				
Credit institutions	2,029	4.31%	3,696	2.51%
Resident Public Administrations	35,832	76.13%	122,275	96.20%
Other resident sectors	686	1.46%	1,140	1.29%
Other non-resident sectors	8,519	18.10%	-	-
	47,066	100.00%	127,111	100.00%
By instrument types:				
Listed bonds and debentures	44,317	94.16%	122,275	96.20%
Other fixed-income securities	-	-	-	-
Derivatives not traded on organised markets	2,173	4.62%	4,342	3.42%
Listed shares	576	1.22%	494	0.38%
	47,066	100.00%	127,111	100.00%

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

	2019		2018	
	Amount	%	Amount	%
A-rated risks	36,838	78.27%	123,632	97.26%
B-rated risks	8,932	18.98%	411	0.32%
Amounts not assigned	1,296	2.75%	3,068	2.42%
	47,066	100.00%	127,111	100.00%

b) Debt securities

The breakdown of the balance of the debt securities included under this heading on the asset side of the consolidated balance sheet as at 31 December 2019 and 2018 is as follows:

	2019	2018
Public Debt Other European Union Countries	8,519	-
Spanish/Regional Public Debt	34,788	118,312
Official Credit Institute	-	25
Other fixed-income securities	1,010	3,938
	44,317	122,275

The average annual interest rate on the debt securities in the banking business in 2019 and 2018 was 0.997% and 0.857%, respectively.

(Expressed in thousands of euros)

c) Equity instruments

The breakdown of the balance of equity instruments on the asset side of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Holdings in Spanish entities	-	-
Holdings in foreign entities	-	-
Investment Fund Units	576	494
Other holdings	-	-
	576	494

d) Derivatives held for trading

The breakdown of the balance of Derivatives under "Financial Assets Held for Trading" and "Financial Liabilities Held for Trading" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019		
	Notional value	Fair value	
		Assets	Liabilities
Purchase-sale of unmatured currencies			
Purchases	60,894	853	237
Sales	31,683	272	114
Financial and interest rate forwards			
Purchased	19,199	-	-
Sold	30,985	-	-
Securities options			
Purchased	28,530	431	-
Sold	1,308,719	-	-
Currency options			
Purchased	1,695	38	-
Sold	1,695	-	38
Interest rate options			
Purchased	21,710	401	-
Sold	1,815	-	-
Other interest rate transactions			
FRAs			
Financial swaps	211,677	164	229
Call Money Swaps (CMS)		-	-
Other term transactions			
Purchased	473	13	-
Sold	33,264	1	597
		2,173	1,215

(Expressed in thousands of euros)

	2018		
	Notional value	Fair value	
		Assets	Liabilities
Purchase-sale of unmatured currencies			
Purchases	78,790	1,199	68
Sales	34,954	95	338
Financial and interest rate forwards			
Purchased	11,200	-	-
Sold	4,600	-	-
Securities options			
Purchased	57,130	682	-
Sold	1,316,078	-	-
Currency options			
Purchased	1,922	15	-
Sold	1,922	-	20
Interest rate options			
Purchased	19,947	722	-
Sold	1,868	-	3
Other interest rate transactions			
FRAs	-	-	-
Financial swaps	19,016	195	143
Call Money Swaps (CMS)	-	-	-
Other term transactions	-	1,434	1,321
		4,342	1,893

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

The guarantees granted by the Group to certain investment funds and voluntary social welfare entities (all managed by companies belonging to the Laboral Kutxa Group (see Annex I)) are recorded as options issued on securities. The nominal value of these transactions as at 31 December 2019 and 2018 amounted to 1,309 and 1,316 million euros, respectively, with a fair value of 0 euros in both cases.

The effect of considering both the counterpart risk and own risk in the valuation of the derivatives held for trading as at 31 December 2019 and 2018 is not significant.

The differences between the value of derivatives sold to and purchased from customers and those purchased from and sold to counter-parties, where there is a margin for the Group, are not material.

(Expressed in thousands of euros)

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

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Equity instruments	88,990	120,860
Holdings in Spanish entities	21,006	35,198
Holdings in foreign entities	3,600	25,817
Investment Fund Units	-	-
Holdings in Venture Capital Companies	60,947	56,408
Securities related to the Development and Education Fund	3,437	3,437
Debt securities	1,186,249	1,015,155
Spanish Public Debt	427,438	336,203
Treasury Bills	-	-
Government bonds and debentures	427,438	336,203
Other recorded debts	-	-
Other Spanish Government debt	17,726	34,974
Foreign public debt	605,588	556,427
Issued by credit institutions	88,832	57,239
Residents	24,612	22,483
Non-residents	64,220	34,756
Other fixed-income securities	46,665	30,312
Issued by other residents	19,342	16,941
Issued by other non-residents	27,323	13,371
Doubtful assets	17,884	17,632
Value adjustments due to asset impairment	(17,884)	(17,632)
Micro-hedge transactions	-	-
	1,275,239	1,136,015

As at 31 December 2019 and 2018 most of the references in this portfolio were classified as Stage 1, with Stage 3 being 18 million euros in both years.

On 18 December 2018 MONDRAGON Inversiones, S.P.E., S.Coop. and the Parent Company agreed to sell 7,919 shares in MONDRAGON Promoción Empresarial, S.A. (a company resulting from the merger in 2018 between MONDRAGON Promoción Empresarial, S.A. and MONDRAGON Innovación, S.A.), with a net book value of 3,943 thousand euros.

The fair value subject to quantification of the items included under "Financial assets at fair value with changes in other comprehensive income" as at 31 December 2019 and 2018, together with the measurement techniques applied, are set out in Note 41.

Note 39 provides a breakdown of the balance of "Other Accumulated Comprehensive Income" in consolidated equity as at 31 December 2019 and 2018 arising from changes in the fair value of the items included under " Financial Assets at Fair Value through Other Comprehensive Income".

The amount derecognised from "Other accumulated comprehensive income" in equity in the years ended 31 December 2019 and 2018 and recognised in the consolidated profit and loss account for the sale of financial instruments classified in the portfolio of financial assets at fair value through other comprehensive income amounted to 412 thousand euros and 17,637 thousand euros, respectively, both net of tax effect (see Note 39).

In addition, in 2019 they were derecognised from "Other accumulated comprehensive income - Items not to be reclassified to profit or loss" in Net Equity as a result of the sale of equity financial instruments classified in the "Financial assets at fair value through other comprehensive income" portfolio, for an amount net of tax of 1,198 thousand euros (484 thousand euros in 2018).

(Expressed in thousands of euros)

The breakdown by currency and maturity of "Financial assets measured at fair value through other comprehensive income" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
By currency:		
In Euro	1,252,738	1,108,052
In US dollars	22,501	24,413
Pounds sterling	-	2,965
Swiss francs	-	585
Others	-	-
	1,275,239	1,136,015
By maturity:		
Up to 1 month	3,284	1,324
Between 1 month and 3 months	3,770	14,065
Between 3 months and 1 year	45,679	60,538
Between 1 year and 5 years	822,400	790,055
More than 5 years	310,370	149,435
Maturity not determined	107,620	138,230
Value adjustments due to asset impairment	(17,884)	(17,632)
	1,275,239	1,136,015

Movements in 2019 and 2018 under "Financial assets at fair value through other comprehensive income" are set out below:

	2019	2018
Balance at the close of the previous year	1,136,015	5,081,194
Impact of the first application of IFRS 9 (Note 2.3)	-	(3,976,924)
Balance at the beginning of the year	1,136,015	1,104,270
Net additions/removals	85,185	83,985
Movements due to changes in fair value	54,199	(45,604)
Impairment losses (net) charged to profit and loss (Note 62)	(160)	(6,636)
Others	-	-
Balance at the close of the year	1,275,239	1,136,015

The average annual interest rate on the debt securities in the banking business in 2019 and 2018 was 0.431% and 0.762%, respectively. The average annual yield in 2019 and 2018 on debt securities in the insurance business was 2.29% and 2.33%, respectively.

The Group also holds other subordinated debt instruments amounting to 3,144 thousand euros in the portfolio of financial assets at fair value with changes in other comprehensive income as at 31 December 2019 (445 thousand euros as at 31 December 2018).

As at 31 December 2019 and 2018, the Parent Entity had subscribed shares in the share capital of certain unlisted companies for which there are unpaid disbursements not required amounting to 30 thousand euros, in both years.

During the 2018 financial year, the Parent Company sold fixed income issues for a nominal amount of 410,000 thousand euros, materialising gross capital gains for a value of 25,948 thousand euros, which were recorded under the heading "Gains and (-) losses upon derecognition of financial assets and liabilities not valued at fair value through income, net" in the profit and loss account for the 2018 financial year (Note 50). At the same time, the Parent Entity undid the hedge with financial swaps, recording a gross loss of 15,983 thousand euros, which have been recorded under the heading “Profits and (-) losses resulting from hedge accounting, net" in the profit and loss statement for the year 2018 (Note 53).

(Expressed in thousands of euros)

As at 31st December 2019 and 2018, the Parent Company held a cash flow hedge on certain fixed income issuances, included in the portfolio of "Financial assets at fair value with changes in other comprehensive income" for a nominal amount of 370 million euros. This hedge was carried out by contracting OTC swaps (Eurozone inflation - interest rate) with Credit Entities, and their fair value as at 31 December 2019 amounted to 20,845 thousand euros (13,355 thousand euros as at 31 December 2018).

As at 31 December 2019 and 2018, the Parent Company held a fair value hedge on certain fixed income issuances, included in the portfolio of "Financial assets at fair value with changes in other comprehensive income" for a nominal amount of 50,000 thousand euros in both years. This hedging was performed by contracting OTC financial swaps on interest rates with Credit Entities and their fair value as at 31 December 2019 and 2018, amounted to 5,279 thousand euros and 125 thousand euros, respectively.

a) Credit risk

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

	2019		2018	
	Amount	**%**	**Amount**	**%**
Spain	507,001	42.10%	428,233	41.46%
Other European Union countries	682,208	56.66%	597,972	57.90%
Rest of Europe	-	-	-	-
Rest of the world	14,924	1.24%	6,582	0.64%
	1,204,133	100.00%	1,032,787	100.00%
Value adjustments due to asset impairment	(17,884)		(17,632)	
	1,186,249		1,015,155	

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

	2019		2018	
	Amount	**%**	**Amount**	**%**
A-Rated Risks	514,692	43.38%	441,575	43.50%
B-Rated Risks	668,516	56.36%	572,056	56.35%
C-Rated Risks	-	-	-	-
Non-rated doubtful assets	-	-	-	-
Amounts not assigned	3,041	0.26%	1,524	0.15%
	1,186,249	100.00%	1,015,155	100.00%

Due mainly to the expected recovery of future flows from certain financial assets, stock market developments, the liquidity situation of certain fixed-income issues and the increase in credit risk spreads, the Group considered certain debt instruments included in the Financial Assets at Fair Value through Other Comprehensive Income portfolio to be impaired.

b) Impairment losses

The breakdown of the balance of "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) net gains by modification - Financial assets at fair value through other comprehensive income" in the consolidated profit and loss accounts for the years ended 31 December 2019 and 2018 is as follows (see Note 62):

(Expressed in thousands of euros)

	2019	2018
Debt securities	(160)	6,636
Equity instruments	-	-
	(160)	6,636
Allocations charged to P&L		
Determined individually	315	6,680
Determined collectively	-	-
Recovery of allocations credited to P&L	(62)	(44)
Recovery of write-offs with credit to P&L	(413)	-
	(160)	6,636

The changes in 2019 and 2018 in the asset impairment losses recognised under "Financial assets at fair value through other comprehensive income - Debt securities" were as follows:

	2019	2018
Balance at the beginning of the year	17,632	10,969
Net allocations/(recoveries) charged/(credited) to P&L	252	6,636
Transfer to write-offs against set-up funds	-	-
Other movements	-	27
	17,884	17,632

The breakdown, by method of determination, of the balance of Value adjustments for impairment of assets under "Financial assets at fair value through other comprehensive income" as at 31 December 2019 and 2018 is as follows

	2019	2018
By manner of determination:		
Determined individually	17,884	17,632
Determined collectively	-	-
	17,884	17,632

25. Financial assets at amortised cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Debt securities	6,412,588	5,542,505
Loans and advances	14,443,419	13,456,354
Credit institutions	470,358	203,631
Customers	13,973,061	13,252,723
	20,856,007	18,998,859

(Expressed in thousands of euros)

The breakdown by currency and maturity of Financial assets measured at amortised cost in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
By currency:		
In Euro	20,941,638	19,261,894
In US dollars	80,181	13,350
Pounds sterling	86	7
In Japanese yen	115	45
Swiss francs	50	48
Other	-	60
Valuation adjustments	(166,063)	(276,545)
	20,856,007	18,998,859
By maturity:		
On demand	291,211	160,018
Up to 1 month	245,432	131,468
Between 1 month and 3 months	60,747	51,656
Between 3 months and 1 year	483,276	1,230,779
Between 1 year and 5 years	4,388,691	2,597,578
More than 5 years	15,098,137	14,435,670
Maturity not determined	454,576	668,235
Valuation adjustments	(166,063)	(276,545)
	20,856,007	18,998,859

a) Debt securities

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Bonds and debentures	6,321,923	5,435,445
Spanish Public Debt	6,176,677	5,293,430
Foreign public debt	81,531	13,340
French public debt	-	1,030
German public debt	4,491	4,515
Dutch public debt	749	765
Belgian public debt	7,452	7,030
Portuguese public debt	68,839	-
Issued by credit institutions	52,500	127,636
Residents	42,047	1,323
Non-residents	10,453	126,313
Issued by Other sectors	11,215	1,039
Residents	10,175	-
Non-residents	1,040	1,039
Promissory notes and other fixed income issues:	2,248	25,055
Issued by Other sectors	2,248	25,055
Residents	2,248	25,055
Non-residents	-	-
Value adjustments due to asset impairment	(542)	(543)
Micro-hedging transactions	88,959	82,548
	6,412,588	5,542,505

As at 31 December 2019 and 2018 all the references in this portfolio were classified as Stage 1.

The breakdown by currency, maturity and rating of "Financial assets measured at amortised cost - Debt securities" in the consolidated balance sheets as at 31 December 2019 and 2018 was as follows:

(Expressed in thousands of euros)

	2019	2018
By currency:		
In Euro	6,255,332	5,459,957
In Dollars	68,839	-
Valuation adjustments	88,417	82,548
	6,412,588	5,542,505
By maturity:		
Up to 1 year	316,953	997,260
Between 1 year and 5 years	2,281,620	1,352,197
More than 5 years	3,725,598	3,110,500
Valuation adjustments	88,417	82,548
	6,412,588	5,542,505
By ratings:		
A-Rated Risks	6,217,237	5,400,170
B-Rated Risks	104,686	34,732
Amounts not assigned	2,248	25,055
Valuation adjustments	88,417	82,548
	6,412,588	5,542,505

Movements in 2019 and 2018 under "Financial assets at amortised cost - Debt securities" are set out below:

	2019	2018
Balance at the close of the previous year	5,542,505	461,297
Impact of the first application of IFRS 9 (Note 2.3)	-	3,782,064
Balance at beginning of the year	5,542,505	4,243,361
Additions due to purchases	1,870,269	2,026,947
Amortisation	(1,065,735)	(724,524)
Micro-hedge adjustments	6,411	36,790
Receipt of interests	(8,484)	(91,414)
Interest accrual	67,622	51,345
Impairment (Note 62)	-	-
Balance at the close of the year	6,412,588	5,542,505

The average annual interest rate for "Financial assets at amortised cost - Debt securities" in the banking business in 2019 and 2018 was 1.163% and 1.851%, respectively. The average annual profitability for "Financial assets at amortised cost - Debt securities" in the insurance business in 2019 and 2018 was 3.78% and 3.53%, respectively.

The book value shown in the above tables represents the maximum level of exposure to credit risk with respect to the financial instruments included therein.

The fair value subject to quantification of the items included under "Financial assets at amortised cost - Debt securities" as at 31 December 2019 and 2018, together with the valuation techniques applied, are set out in Note 41.

During 2019, the Parent Company made purchases of government debt for a nominal amount of 1,640 million euros (1,982 million euros in 2018). In addition, during 2019, issues for a nominal amount of 924 million euros were redeemed on maturity (700 million euros in 2018), of which 833 million correspond to government bonds (600 million in 2018) and 91 million correspond to issues by non-resident credit institutions (100 million in 2018).

(Expressed in thousands of euros)

As at 31 December 2019 and 2018, the Parent Company held a fair value hedge on Government Debentures, included in the "Financial assets at amortised cost" portfolio for a nominal amount of 425,000 thousand euros. This hedge was performed through contracting OTC financial swaps on interest rates with Credit Entities, the fair value of which as at 31 December 2019 and 2018, amounted to (88,001) and (91,054) thousand euros, respectively.

In addition, as at 31 December 2019 and 2018, the Parent Company held a cash flow hedge on certain fixed income issuances included in the "Financial assets at amortised cost" portfolio for a nominal amount of 2,907 and 2,482 million euros, respectively. This hedging was performed by contracting OTC financial swaps (Eurozone inflation - interest rate) with Credit Entities and their fair value as at 31 December 2019 and 2018, amounted to (126,386) thousand euros and (35,990) thousand euros, respectively.

b) Loans and advances

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Loans and advances		
Credit institutions	470,358	203,631
Customers	13,973,061	13,252,723
	14,443,419	13,456,354

Regarding the breakdown of "Financial assets at amortised cost - Loans and advances - Customers" according to the internal or external credit ratings assigned, and regarding the default rates on these investments, as detailed in the note on Credit Risk, the Parent Company has developed internal scoring and rating models that grade customers (rating) or operations (scoring) according to their level of risk, in order to improve risk management, as well as to access the validation of said internal models for the calculation of regulatory capital in accordance with Basel requirements.

At the close of the 2019 and 2018 financial years, the Parent Company had information referring to the scoring models for mortgage and consumer transactions for Private Individuals and regarding the rating model for SMEs. However, in order to provide comprehensive information on the risk levels of the Group's investments, it was decided to include a breakdown of Financial Assets at amortised cost - Loans and advances according to their credit quality for 31 December 2019 and 2018:

(Expressed in thousands of euros)

	2019		
	Amount gross	**Impairment adjustments**	**Book value**
Stage 1 (normal)	13,976,684	25,351	13,951,333
Stage 2 (special monitoring)	253,446	37,675	215,771
Stage 3 (doubtful)	504,237	227,922	276,315
TOTAL	**14,734,367**	**290,948**	**14,443,419**

	2018		
	Amount gross	**Impairment adjustments**	**Amount value**
Stage 1 (normal)	12,908,714	25,042	12,883,672
Stage 2 (special monitoring)	292,884	37,398	255,486
Stage 3 (doubtful)	608,750	291,554	317,196
TOTAL	**13,810,348**	**353,994**	**13,456,354**

The following indicates the default rate of the Parent Company, calculated as the relationship between the balances classified for accounting purposes as doubtful and the balance of Loans and Advances - Customer, without considering the valuation adjustments:

2019	**2018**	**2017**
3.54%	4.48%	4.98%

b.1) Loans and advances - Credit institutions

The breakdown of this balance sheet heading by type of instrument is as follows:

	2019	**2018**
Term accounts	242,128	70,072
Temporary acquisition of assets	-	-
Other accounts	228,230	131,991
Valuation adjustments		
Value adjustments due to asset impairment	-	-
Others	-	1,568
	470,358	203,631

Average annual interest rates on Loans and advances - credit institutions for 2019 and 2018 were 0.134% and 3.521% respectively.

As at 31 December 2019 and 2018, all the references in this portfolio were classified as Stage 1.

(Expressed in thousands of euros)

b.2) Loans and advances - Customers

The breakdown, by various criteria, of the Customer balances under "Financial assets measured at amortised cost - Loans and advances" as at 31 December 2019 and 2018 is as follows:

	2019	2018
By type and situation:		
Spanish Government Bodies	734,491	194,145
Commercial loans	313,645	304,030
Debtors with mortgage guarantee	10,366,963	10,381,228
Debtors with other collateral	37,762	38,888
Other term loans	1,682,220	1,589,305
Finance leases	190,741	195,946
Sight debtors and miscellaneous	249,471	243,008
Reverse repurchase agreements with counter party entities	-	-
Doubtful assets	504,237	608,750
Other financial assets	148,011	57,541
Valuation adjustments	(254,480)	(360,118)
Interest accrued	10,121	8,830
Value adjustments for asset impairment	(290,948)	(353,994)
Fees	(15,863)	(14,954)
Acquisition premium	30,480	-
Transaction Costs (Note 13.e)	11,730	-
	13,973,061	13,252,723
By sector of activity of borrower:		
Spanish Government Bodies	741,179	199,449
Other resident sectors:	13,322,721	13,333,357
Agriculture, farming, hunting, forestry and fisheries	73,529	72,409
Industries	700,903	770,963
Construction	243,654	246,135
Services	1,453,399	1,342,044
Commerce and hotel and catering	675,546	672,499
Transport and communications	216,235	194,501
Other services	561,618	475,044
Loans to individuals:	10,651,719	10,599,224
Home	9,614,672	9,588,997
Consumer and other	1,037,047	1,010,227
Not classified	199,517	303,382
Valuation adjustments	(254,480)	(360,118)
Other non-resident sectors	30,612	40,668
Other financial assets	133,029	38,567
Reverse repurchase agreements with counter party entities	-	-
	13,973,061	13,252,723
By geographical area:		
- Biscay	3,532,043	3,640,761
- Gipuzkoa	3,902,341	3,295,610
- Araba	1,444,550	1,457,689
- Navarra	1,495,143	1,513,228
- New network	3,853,464	3,705,553
- Not classified	-	-
Valuation adjustments	(254,480)	(360,118)
	13,973,061	13,252,723
By interest rate applied:		
Fixed interest rate	2,207,220	1,745,491
Variable interest rate linked to Euribor	11,582,011	11,482,991
Variable interest rate linked to CECA	-	-
Variable interest rate linked to IRMH	47,208	54,619
Others	391,102	329,740
Valuation adjustments	(254,480)	(360,118)
	13,973,061	13,252,723

(Expressed in thousands of euros)

During 2019, the Parent Entity acquired a loan to the General State Administration for an amount of 530,480 thousand euros. The nominal amount of the loan, due in 2023, amounts to 500 million euros and accrues a variable interest rate referenced to the Euribor. In addition, the Parent Entity formalised a hedge on the cash flows of this operation by contracting an interest rate swap for a notional amount of 500 million euros. The fair value of the hedge derivative is (4,023) thousand euros.

The breakdown by currency and maturity of the Customer balance under heading "Financial assets at amortised cost - Loans and advances" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	**2018**
By currency:		
In Euro	14,215,968	13,599,331
In US dollars	11,328	13,350
Pounds sterling	80	7
Japanese yen	115	45
Swiss francs	50	48
Others	-	60
Valuation adjustments	(254,480)	(360,118)
	13,973,061	13,252,723
By maturity:		
On demand	291,211	134,963
Up to 1 month	17,932	111,396
Between 1 month and 3 months	48,788	92,285
Between 3 months and 1 year	178,832	167,945
Between 1 year and 5 years	1,920,121	1,250,044
More than 5 years	11,317,361	11,319,964
Maturity not determined	453,296	536,244
Valuation adjustments	(254,480)	(360,118)
	13,973,061	13,252,723

As at 31 December 2019 and 2018, the Group has not recorded subordinated loans, under that heading.

(Expressed in thousands of euros)

The changes in 2019 and 2018 in the gross amount of the Customer balance under the heading "Financial assets at amortised cost - Loans and advances", by risk classification, were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of the previous year	12,908,714	292,884	608,750	13,810,348
Concessions/(Amortisations) net	1,065,980	(41,116)	(31,547)	993,317
Transfers between gross balances	2,001	1,957	(3,958)	-
Transfers to non-current assets for sale	-	-	(16,210)	(16,210)
Transfer to write-offs	-	(279)	(52,798)	(53,077)
Balance at the close of 2019	13,976,695	253,446	504,237	14,734,378

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of the previous year (*)	13,154,728	292,194	686,977	14,133,899
Impact of the first application of IFRS 9 (Note 2.3) (**)	-	-	3,871	3,871
Balance at the beginning of the year	13,154,728	292,194	690,848	14,137,770
Concessions/(Amortisations) net	(179,668)	(18,733)	(44,413)	(242,814)
Transfers between gross balances	(65,639)	19,546	46,093	-
Transfers to non-current assets for sale	-	-	(31,765)	(31,765)
Transfer to write-offs	(707)	(123)	(52,013)	(52,843)
Balance at the close of 2018	12,908,714	292,884	608,750	13,810,348

(*) Corresponding to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (See Note 2.3.)

(**) Corresponding to the recognition of interest for doubtful assets of 3,871 thousand euros in accordance with the application of IFRS 9 (Note 2.3), which were 100% provisioned on 1 January 2018.

As at 31 December 2019 and 2018 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. As at 31 December 2019 and 2018 the investment outstanding and residual values by type of asset financed are as follows:

Principal	2019	2018
Capital goods	44,575	44,817
Computer hardware	1,000	910
Materials and transport vehicles	61,777	62,490
Cars	23,470	22,759
Other assets	10,253	9,517
Total furniture	141,075	140,493
Property Assets	29,194	35,403
TOTAL	170,269	175,896

Residual value	2019	2018
Capital goods	1,532	1,451
Computer hardware	40	39
Materials and transport vehicles	6,577	6,267
Cars	11,497	11,946
Other assets	396	382
Total furniture	20,042	20,085
Property Assets	4,085	4,397
TOTAL	24,127	24,482

(Expressed in thousands of euros)

Of these balances, a total amount of 3,655 thousand euros as at 31 December 2019 and 4,432 thousand euros as at 31 December 2018, relate to impaired assets included under Doubtful assets.

A breakdown of securitisations and other asset transfers carried out by the Parent Company as at 31 December 2019 and 2018 is as follows:

	2019	2018
Fully derecognised from the balance sheet:	-	-
Mortgage assets securitised through mortgage bond holdings	-	-
Pro-memoria: Derecognised from the balance sheet before 1 January 2004	-	-
Maintained in full on the balance sheet:	496,765	550,340
Mortgage assets securitised through transfer certificates		
Mortgage	496,765	550,340
Other securitised assets	-	-
	496,765	550,340

In previous years, the Group carried out various asset securitisation programmes, transferring mortgage and company loans to the "I.M. Caja Laboral 1, F.T.A. securitisation funds." and "IM Caja Laboral 2, F.T.A." for 900,000 and 600,000 thousand euros, respectively. These asset transfers did not meet the requirements laid down by the International Financial Reporting Standards for the derecognition of the transferred assets, since the Parent Entity retains the risks and rewards associated with ownership of the assets and also maintains control over them. As a result, a liability associated with the net assets transferred to the above-mentioned funds has been recognised (Note 35).

The outstanding balance of these assets as at 31 December 2019 amounted to 496,763 thousand euros (550,340 thousand euros as at 31 December 2018). It is worth mentioning that the Parent Entity subscribed all securitisation bonds of the “IM Caja Laboral 2, F.T.A. fund”. It is the Parent Company's intention to use them as collateral in Eurosystem credit operations.

Additionally, as at 31 December 2019, the Parent Entity has granted subordinated loans to the aforementioned Asset Securitisation Funds amounting to 25,612 thousand euros (26,237 thousand euros as at 31 December 2018).

c) Impairment losses

The breakdown of the balance under "Impairment or (-) reversal of impairment losses on financial assets not measured at fair value through profit or loss (-) or net income by modification - Financial assets at amortised cost - Loans and advances" in the consolidated profit and loss accounts for the years ended 31 December 2019 and 2018 (see Note 62) is as follows:

(Expressed in thousands of euros)

	2019	2018
Loans and advances	(11,231)	5,632
Allocations	125,907	126,787
Failed asset recovery	(5,433)	(4,178)
Other recoveries	(131,705)	(116,977)
	(11,231)	5,632
Allocations charged to P&L	125,907	126,787
Determined individually	77,991	54,341
Determined collectively	47,916	72,446
Recovery of allocations credited to P&L	(131,705)	(116,977)
Recovered suspense items	(5,433)	(4,178)
	(11,231)	5,632

The details as at 31 December 2019 and 2018 of the balance of Impairment losses on assets under "Financial assets at amortised cost - Loans and advances" were as follows:

	2019	2018
By type of hedge:		
Specific hedge	227,922	291,554
Generic hedge	63,026	62,440
	290,948	353,994
By manner of determination:		
Determined individually	161,749	197,731
Determined collectively	129,199	156,263
	290,948	353,994
By counter-party:		
Other resident sectors	289,866	352,883
Other non-resident sectors	1,082	1,111
	290,948	353,994

As at 31 December 2019, the balance of generic hedges included 37,675 thousand euros due to the value adjustment of the operations classified as normal risk under special surveillance amounting to 254,446 thousand euros (37,398 and 292,884 thousand euros, respectively, as at 31 December 2018).

The changes in 2019 and 2018 in the balance of Value adjustments due to impairment losses on assets under "Financial assets at amortised cost - Loans and advances" were as follows:

(Expressed in thousands of euros)

	Stage 1	Stage 2	Stage 3	Total
Balance at the close of 2017 (*)	25,546	55,930	305,965	387,441
Impact of the first application of IFRS 9 (Note 2.3) (**)	(1,468)	3,090	12,409	14,031
Balance as at 1 January 2018	24,078	59,020	318,374	401,472
Net provisions charged to P&L	164	(21,622)	30,804	9,346
Transfer to write-offs against set-up funds	-	-	(48,757)	(48,757)
Transfer between value adjustments	-	-	-	-
Others	800	-	(8,867)	(8,067)
Balance at the close of 2018	25,042	37,398	291,554	353,994
Net provisions charged to P&L	192	277	(9,124)	(8,655)
Transfer to write-offs against set-up funds	-	-	(50,317)	(50,317)
Transfer between value adjustments	-	-	-	-
Others	116	-	(4,190)	(4,074)
Balance at the close of 2019	25,350	37,675	227,923	290,948

(*) Corresponding to balances classified under the heading "Loans and receivables - Loans and advances - Customers" (See Note 2.3.)

(**) This includes an impairment loss of 3,871 thousand euros corresponding to the recognition of interest assets as doubtful assets in accordance with the application of IFRS 9 (Note 2.3), which have been 100% provisioned.

During 2019 and 2018, the item “Other” mainly reflected the reclassification of the specific hedging of funding extended to building societies, to “Non-current assets and disposal groups classified as held for sale” in the amount of 4,190 thousand euros and 9,039 thousand euros, respectively (Note 34).

The accumulated financial income and that not recorded in the consolidated profit and loss account of the impaired financial assets as at 31 December 2019 and 2018 amounted to 56,386 thousand euros and 63,806 thousand euros, respectively.

(Expressed in thousands of euros)

The breakdown of the book value of impaired assets, without deducting impairment losses, is as follows:

	2019	2018
By geographical area:		
- Biscay	104,237	128,878
- Gipuzkoa	156,284	187,668
- Araba	40,043	43,194
- Navarra	53,250	75,313
- New network	150,423	173,697
- Not classified	-	-
	504,237	608,750
By counter-party:		
Spanish Government Bodies	6,688	6,919
Other resident sectors	496,844	600,734
Other non-resident sectors	705	1,097
	504,237	608,750
By type of instrument:		
Commercial loans	9,104	12,215
Loans and credits	476,071	573,358
Finance leases	6,724	8,299
Others	12,338	14,878
	504,237	608,750

The breakdown by age of the amounts due is as follows:

	2019	2018
Up to 6 months	223,616	274,690
Over 6 months without exceeding 9 months	25,536	33,077
Over 9 months without exceeding 12 months	24,493	25,000
Over 12 months without exceeding 15 months	16,820	16,762
Over 15 months without exceeding 18 months	13,040	15,136
Over 18 months without exceeding 21 months	13,034	16,625
Over 21 months	187,698	227,460
	504,237	608,750

A breakdown as at 31 December 2019 and 2018 of the balances of financial assets derecognised from the Group's consolidated balance sheet because their recovery is considered to be remote is shown below:

	2019	2018
Financial assets at amortised cost - Loans and advances - Customers	563,368	534,630
	563,368	534,630

(Expressed in thousands of euros)

The movement in impaired financial assets derecognised because recovery is considered to be remote, is as follows:

	2019	2018
Balance at the beginning of the year	534,630	499,294
Additions:	53,077	52,843
Value adjustment due to asset impairment and other movements	53,077	52,843
Recoveries:	(5,433)	(4,178)
Due to collection in cash of principal	(5,433)	(4,178)
Definitive derecognitions:	(18,906)	(13,329)
For cancellation	(18,906)	(13,329)
Balance at year end	563,368	534,630

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

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Equity instruments	48,673	51,224
Holdings in collective investment institutions (*)	48,673	51,224
Debt securities	2,210	10,912
	50,883	62,136

(*) As at 31 December 2019, 2,644 thousand euros correspond to investment funds managed by the Group (3,071 thousand euros as at 31 December 2018).

The fair value of the items included under "Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss" as at 31 December 2019 and 2018, together with the valuation techniques applied, are set out in Note 41.

The effect on the consolidated profit and loss account for the years ended 31 December 2019 and 2018 resulting from changes in the fair value of the items recorded as "Financial assets not intended for trading, which are necessarily valued at fair value through profit and loss", is as follows:

	Profit		Loss	
	2019	2018	2019	2018
Equity instruments	10,829	7,552	(6,487)	(10,859)
Debt securities	1,601	524	(713)	(855)
	12,430	8,076	(7,200)	(11,714)

(Expressed in thousands of euros)

Below is a breakdown based on the criterion for determining fair value of the effect on the consolidated profit and loss account for the years ended 31 December 2019 and 2018, resulting from changes in the fair value of the "Financial assets not intended for trading, necessarily valued at fair value through changes in profit and loss" portfolio:

	Profit		Loss	
	2019	2018	2019	2018
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	7,732	7,281	(3,910)	(10,492)
Estimated through a measurement technique based on:				
Market-based data (Level 2)	298	-	-	(226)
Non-market-based data (Level 3)	4,400	795	(3,290)	(996)
	12,430	8,076	(7,200)	(11,714)

The balances included under "Financial assets not intended for trading, necessarily valued at fair value through profit and loss" in the consolidated balance sheets as at 31 December 2019 and 2018 is broken down below by currencies and expiry:

	2019	2018
By currency:		
In Euro	41,631	53,310
In US dollars	9,252	8,826
	50,883	62,136
By maturity:		
Up to 1 month	-	-
Between 1 month and 3 months	-	-
Between 3 months and 1 year	-	-
Between 1 year and 5 years	-	-
More than 5 years	2,210	10,912
Maturity not determined	48,673	51,224
	50,883	62,136

(Expressed in thousands of euros)

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

	2019		2018	
	Amount	%	Amount	%
By geographical area:				
Spain	37,381	73.47%	40,701	65.50%
Other European Union countries	4,250	8.35%	3,610	5.81%
Rest of the world	9,252	18.18%	17,825	28.69%
	50,883	100.00%	62,136	100.00%
By counter-party categories:				
Credit institutions	2,210	4.34%	44,167	71.08%
Resident Public Administrations	-	-	-	-
Other resident sectors	35,171	69.12%	5,534	8.91%
Other non-resident sectors	13,502	26.54%	12,435	20.01%
	50,883	100.00%	62,136	100.00%
By instrument types:				
Listed bonds and debentures	2,210	4.34%	1,912	3.08%
Other fixed-income securities	-	-	9,000	14.48%
Derivatives not traded on organised markets	-	-	-	-
Holdings in collective investment institutions	48,673	95.66%	51,224	82.44%
Listed shares	-	-	-	-
	50,883	100.00%	62,136	100.00%

"Financial assets not intended for trading, necessarily valued at fair value through profit and loss" are listed below by external credit ratings assigned by the main rating agencies:

	2019		2018	
	Amount	%	Amount	%
A-Rated Risks	-	-	9,000	14.48%
B-Rated Risks	-	-	1,912	3.08%
Amounts not assigned	50,883	100.00%	51,224	82.44%
	50,883	100.00%	62,136	100.00%

27. Derivatives - asset and liability hedge accounting

The breakdown of these items in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
Micro-hedges:	106,525	148,906	254,680	157,890
Fair value hedges	64,437	104,998	103,027	91,346
Cash flow hedges	42,088	43,908	151,653	66,544
Credit risk adjustment	-	-	518	276
	106,525	148,906	255,198	158,166

(Expressed in thousands of euros)

The items under "Derivatives – hedge accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2019 and 2018 are itemised below by currency and expiry:

	Assets		Liabilities	
	2019	2018	2019	2018
By currency:				
In Euro	106,525	148,906	252,973	158,166
In US dollars	-	-	2,225	-
	106,525	148,906	255,198	158,166
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	-	-	-	-
Between 3 months and 1 year	18,050	4,200	2,913	19,681
Between 1 year and 5 years	85,191	111,713	134,676	12,447
More than 5 years	3,284	32,993	117,091	125,762
Undetermined expiry	-	-	518	276
	106,525	148,906	255,198	158,166

The balance of "Derivatives – hedge accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2019 and 2018 is broken down as follows:

	2019		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate transactions			
Financial swaps	5,941,454	106,525	255,198
Other share operations			
Financial swaps	-	-	-
		106,525	255,198

	2018		
	Notional value	Fair value	
		Assets	Liabilities
Other interest rate transactions			
Financial swaps	4,780,352	148,906	158,166
Other share operations			
Financial swaps	-	-	-
		148,906	158,166

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

The characteristics of the main hedges held by the Group as at 31 December 2019 and their variations with respect to December 2018 are described below:

Fair value hedges:

- Micro-hedges of the risk of changes to fair value as a result of variations in the risk-free interest rate of a series of public debt instruments, individually considered and classified as "Financial assets at amortised cost", through which exposure to fixed interest rates is exchanged for exposure to floating interest rates.

As at 31 December 2019 and 2018, said debt instruments (hedged items) had a nominal value of 639,117 and 475,000 thousand euros, respectively (Notes 24 and 25).

- Micro-hedges of the risk of changes in fair value as a result of changes in the risk-free interest rate of a series of financing instruments (mortgage bonds) individually considered and classified as "Financial liabilities at amortized cost", through which exposure to fixed interest rates is exchanged for exposure to floating interest rates.

  As at 31 December 2019 and 2018, these financial liabilities at amortised cost (hedged items) had a nominal value of 1,025,000 thousand and 1,125,000 thousand euros, respectively (Note 35). During the year, no new hedges were created on financing instruments individually considered and classified as "Financial liabilities at amortized cost".

Cash flow hedges:

- Micro-hedges of the risk of variations in cash flows due to inflation on certain bonds in the "Financial assets at fair value with changes in other comprehensive income" portfolio. The coupon on these bonds is linked to Eurozone inflation. The financial products used to hedge this exchange rate were swaps for a notional amount of 3,277,000 and 2,532,000 thousand euros as at 31 December 2019 and 2018, respectively. During the financial year, micro-hedges on current and future inflation were recorded for a total notional amount of 967,750 thousand euros (Notes 24 and 25).

- Micro-hedges of the risk of variations in cash flows on a loan to the Spanish State Administration acquired in 2019 classified under "Financial assets at amortised cost", the interest on which is linked to the Euribor. The financial products used to hedge this interest rate risk were swaps for a notional amount of 500,000 thousand euros as at 31 December 2019 (Note 25).

The effect of considering both the counterpart risk and own risk in the valuation of the derivatives held for trading as at 31 December 2019 and 2018 is not significant.

The notional value of certain types of financial instruments provides a basis for comparison with instruments recorded on 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 Entity'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 thousands of euros)

28. Investments in joint ventures and associates

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Jointly-controlled entities:		
Net value	-	-
Unquoted	-	-
Value adjustments due to asset impairment	-	-
Associates:		
Net value	325	2,845
Unquoted	325	2,845
Value adjustments due to asset impairment	-	-
	325	2,845

Movements during 2019 and 2018 in the balance of "Investments in joint ventures and associates" are as follows:

	2019	2018
Balance at the beginning of the year	2,845	3,088
Acquisitions	333	-
Disposals due to sale	-	-
Disposals due to capital redemption	(52)	-
Profit sharing (Note 47)	(9)	(168)
Provision for impairment (Note 63)	-	-
Share of valuation gains/(losses)	-	-
Distribution of dividends	-	-
Others	(2,792)	(75)
Balance at year end	325	2,845

Annex I includes the relevant information on the investments in Jointly controlled and Associated Companies, as well as Subsidiaries which have been consolidated using the equity method, as at 31 December 2019 and 2018.

29. Assets under insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Technical provision for unconsumed premiums	11,896	11,983
Life insurance technical provisions	1,055	958
Technical provisions for benefits	15,462	16,762
Credits for reinsurance operations	276	692
	28,689	30,395

(Expressed in thousands of euros)

30. Tangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Property, plant and equipment	297,364	271,364
Own use:	279,299	256,433
IT equipment and installations	4,956	5,217
Furnishings, vehicles and other installations	32,064	34,447
Buildings	279,714	252,863
Of which: rights of use through leases	30,098	-
Work in progress	-	-
Others	-	-
Impairment adjustments	(37,435)	(36,094)
Leased out under operating leases	18,065	14,931
Associated with Community Projects	-	-
Furniture and installations	-	-
Properties	-	-
Investment properties	51,224	50,391
Buildings	61,718	59,092
Rural properties, land and plots	1,311	1,349
Impairment adjustments	(11,805)	(10,050)
	348,588	321,755

(Expressed in thousands of euros)

The movement in 2019 and 2018 in the "Tangible assets" balance is as follows:

	For own use	Leased out under operating leases	Associated with Community Projects	Investment properties	Total
Gross					
Balance as at 1 January 2018	526,728	20,343	2,135	77,035	626,241
Additions	12,159	8,956	-	-	21,115
Withdrawals	(11,778)	(4,646)	(2,135)	(4,929)	(23,488)
Transfers	(1,018)	-	-	1,018	-
Transfers to/from non-current assets for sale	(10,301)	-	-	1,745	(8,556)
Balance as at 31 December 2018	515,790	24,653	-	74,869	615,312
IFRS 16 Impact (Note 2.4)	34,544	-	-	-	34,544
Balance as at 01 January 2019	550,334	24,653	-	74,869	649,856
Additions	6,396	10,705	-	97	17,198
Withdrawals	(16,055)	(5,512)	-	(968)	(22,535)
Transfers	468	-	-	(468)	-
Transfers to/from non-current assets for sale	(425)	-	-	4,430	4,005
Balance as at 31 December 2019	540,718	29,846	-	77,960	648,524
Accumulated amortisation					
Balance as at 1 January 2018	223,442	7,644	1,406	14,567	247,059
Allocations	11,190	5,389	26	734	17,339
Withdrawals	(9,342)	(3,311)	(1,432)	(1,156)	(15,241)
Transfers	(4)	-	-	4	-
Transfers to/from non-current assets for sale	(2,023)	-	-	279	(1,744)
Others	-	-	-	-	-
Balance as at 31 December 2018	223,263	9,722	-	14,428	247,413
IFRS 16 Impact (Note 2.4)	-	-	-	-	-
Balance as at 01 January 2019	223,263	9,722	-	14,428	247,413
Allocations	14,803	6,367	-	832	22,002
Withdrawals	(14,123)	(4,308)	-	(685)	(19,116)
Transfers	145	-	-	(145)	-
Transfers to/from non-current assets for sale	(104)	-	-	501	397
Others	-	-	-	-	-
Balance as at 31 December 2019	223,984	11,781	-	14,931	250,696
Value adjustments due to asset impairment					
Balance as at 1 January 2018	**(39,513)**	-	-	**(10,714)**	**(50,227)**
Allocations	(21)	-	-	157	136
Withdrawals	278	-	-	1,972	2,250
Transfers	3,162	-	-	(1,465)	1,697
Others	-	-	-	-	-
Balance as at 31 December 2018	**(36,094)**	-	-	**(10,050)**	**(46,144)**
IFRS 16 Impact (Note 2.4)	-	-	-	-	-
Balance as at 01 January 2019	(36,094)	-	-	(10,050)	(46,144)
Allocations	(1,410)	-	-	97	(1,313)
Withdrawals	-	-	-	178	178
Transfers	69	-	-	(2,030)	(1,961)
Others	-	-	-	-	-
Balance as at 31 December 2019	**(37,435)**	-	-	**(11,805)**	**(49,240)**
Net					
Balance as at 31 December 2018	**256,433**	**14,931**	**-**	**50,391**	**321,755**
Balance as at 31 December 2019	**279,299**	**18,065**	**-**	**51,224**	**348,588**

(Expressed in thousands of euros)

On 4 July 2018, the Parent Company and the "Fundación MONDRAGON" Foundation executed a public deed of donation, whereby all the tangible fixed assets assigned to the Welfare Projects with a gross value of 2,135 thousand euros and a net value of 703 thousand euros were derecognised.

In 2019 and 2018, tangible fixed assets for own use with a gross value of 16,055 thousand and 11,778 thousand euros, respectively, were derecognised at the net value of 3,342 thousand and 2,158 thousand euros, respectively. As at 31 December 2019, the disposal of fixed assets for own use mainly related to the sale of 3 properties with a net book value of 1,675 thousand euros (3 properties with a net book value of 1,015 thousand euros as at 31 December 2018).

During 2019, investment property items were derecognised for a gross figure of 968 thousand euros (4,929 thousand euros in 2018), mainly relating to the sale of garages and properties. In the 2019 and 2018 financial years, profits (losses) on the sale of tangible assets amounted to (745) and 310 thousand euros, respectively (Note 65).

In 2019 transfers were made from "Property Investments" to "Fixed assets for own use" for a net book value of 61 thousand euros, and from "Non-current assets held for sale" to "Property investments" for a net book value of 1,637 thousand euros (transfers from " Fixed assets for own use" to "Property investments" for a net book value of 37 thousand euros, corresponding to 2 offices that have ceased to be rented to third parties, and from "Non-current assets held for sale" to " Property investments" for a net book value of 978 thousand euros in 2018).

In 2019, transfers from “Non-current assets held for sale” to “Fixed assets for own use” were made for a net amount of 9 thousand euros. In 2018, transfers were made from "Fixed assets for own use" to "Non-current assets held for sale" for a net amount of 6,093 thousand euros, corresponding mainly to the closure of 15 offices.

The heading Property, plant and equipment for own use on the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

	Gross	**Accumulated amortisation**	**Impairment adjustments**	**Net**
As at 31 December 2019				
IT equipment and installations	46,923	(41,968)	-	4,955
Furnishings, vehicles and other installations	154,739	(122,675)	-	32,064
Buildings	338,173	(58,458)	(37,435)	242,280
Work in progress	-	-	-	-
Others	883	(883)	-	-
	540,718	(223,984)	(37,435)	279,299
As at 31 December 2018				
IT equipment and installations	47,376	(42,159)	-	5,217
Furnishings, vehicles and other installations	162,636	(128,189)	-	34,447
Buildings	304,886	(52,023)	(36,094)	216,769
Work in progress	-	-	-	-
Others	892	(892)	-	-
	515,790	(223,263)	(36,094)	256,433

The fair value of Property, plant and equipment for own use is included in Note 41 to the Report.

The net balance as at 31 December 2019 and 2018 of Property, plant and equipment for own use does not include any amount in respect of material asset not in use.

(Expressed in thousands of euros)

The gross value of the items included under the Group's tangible fixed assets for own use, that were in use and fully depreciated as at 31 December 2019 and 2018 amounted to approximately 145,562 thousand and 149,324 thousand euros, respectively.

The balance of Investment properties in the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

	Gross	Accumulated amortisation	Impairment adjustments	Net
As at 31 December 2019				
Buildings	76,650	(14,932)	(11,805)	49,913
Rural properties, land and plots	1,311	-	-	1,311
	77,961	(14,932)	(11,805)	51,224
As at 31 December 2018				
Buildings	73,520	(14,428)	(10,050)	49,042
Rural properties, land and plots	1,349	-	-	1,349
	74,869	(14,428)	(10,050)	50,391

The fair value of Investment properties is included in Note 41 to the annual accounts.

The gross value of the Group's property investments that were rented out and fully depreciated as at 31 December 2019 and 2018 amounted to approximately 1,688 thousand and 2,145 thousand euros, respectively.

The net operating income from rentals of the Group's investment property in 2019 and 2018 amounted to approximately 2,572 and 2,482 thousand euros, respectively.

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

Set out below is a breakdown of the balance of Assets assigned under operating leases in the consolidated balance sheets as at 31 December 2019 and 2018:

	Gross	Accumulated amortisation	Net
As at 31 December 2019			
Machinery	6,654	(2,025)	4,629
Furnishings and fixtures	1,379	(593)	786
Buildings	-	-	-
IT Equipment	17,506	(7,044)	10,462
Medical equipment	802	(207)	595
Vehicles	2,000	(1,305)	695
Others	1,505	(607)	898
	29,846	(11,781)	18,065
As at 31 December 2018			
Machinery	5,300	(2,154)	3,146
Furnishings and fixtures	1,144	(314)	830
Buildings	-	-	-
IT Equipment	14,432	(5,936)	8,496
Medical equipment	469	(180)	289
Vehicles	2,057	(709)	1,348
Others	1,251	(429)	822
	24,653	(9,722)	14,931

Income from rent from Assets assigned under operating leases by the Group in 2019 and 2018 amounted to approximately 7,357 thousand and 6,261 thousand, euros, respectively.

(Expressed in thousands of euros)

Operating expenses of all kinds corresponding to the Group's Assets assigned under operating leases in 2019 and 2018 amounted to approximately 438 thousand and 373 thousand euros, respectively (Note 55).

The Group holds rights of use through leasing, mainly of office buildings, for the performance of its business activities.

The detail of the rights of use under finance leases and of the changes therein in 2019 is as follows:

	Land and buildings	Others	Total
Balance as at 1 January 2019 (Note 2.4)	34,544	-	34,544
Additions	-	-	-
Withdrawals	(232)	-	(232)
Amortisation	(4,214)	-	(4,214)
Other movements	-	-	-
Balance as at 31 December 2019	30,098	-	30,098

The lease liabilities associated with the rights of use (which are recognised under "Financial liabilities at amortised cost") are detailed below:

	31/12/2019	01/01/2019 (*)	31/12/2018
Lease Liabilities			
For current leases	30,428	34,544	-
For non-current leases	-	-	-
	30,428	34,544	-

(*) Includes the impact of the first application of IFRS 16 (Note 2.3)

Lease liabilities held by the entity as at 31 December 2019, by due dates, were the following:

	2019
Up to 1 year	234
Between 1 and 5 years	4,994
More than 5 years	25,200
	30,428

Also, the impact of the Entity's rights of use under leases on the profit and loss account as at 31 December 2019 was as follows:

	2019
Rights of use amortisation costs	
Land and buildings	(4,214)
Others	-
Lease liability interest costs	(888)
	(5,102)

(Expressed in thousands of euros)

31. Intangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Goodwill	33,425	33,425
Other intangible assets	-	55
With undefined useful life	-	55
Amortised cost	-	55
Value adjustments due to asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	33,425	33,480

The breakdown of the balance in Goodwill in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Seguros Lagun Aro, S.A.		
Gross	33,425	33,425
Impairment adjustments	-	-
	33,425	33,425

Until 20 December 2011, the Group directly held 36.05% of the share capital of Seguros Lagun Aro, S.A. and indirectly held 4.94%. On that date, the Group acquired 59.01% of the share capital, thus obtaining control of Seguros Lagun Aro, S.A., a company that operates as a risk insurer in the main non-life areas of the insurance sector, with the hedging legally established for each area.

Goodwill of €33,425 thousand 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.

In accordance with the estimates and projections available to the directors of the Parent Company, the income forecasts attributable to the Group of the Investee companies generated by the goodwill properly support the recorded net value thereof.

Without taking into account the corrections for impairment of the assets, the changes in the balance of Goodwill during 2019 and 2018 were as follows:

	2019	2018
Balance at the beginning of the year	33,425	33,425
Entries due to changes in the scope of consolidation due to business combinations	-	-
	33,425	33,425

There were no adjustments recorded for impairment under the heading “Impairment or (-) reversal of impairment on non-financial assets - Goodwill” in the consolidated profit and loss account during the years ended 31 December 2019 and 2018.

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

Each year, the Parent Entity submits the goodwill recognized as a result of the acquisition of 100% of Seguros Lagun Aro, S.A. to the impairment analysis established in the accounting standards, which include a sensitivity analysis. This analysis is based on the analysis of the impairment of the cash-generating unit to which this goodwill has been allocated, in this case Seguros Lagun Aro, S.A. This unit would be impaired if its book value were to be higher than its value in use, defined as the present value of its estimated cash flows. This circumstance has not occurred since its acquisition.

The estimated cash flows are derived from the Seguros Lagun Aro, S.A. business plan, based on moderate growth rates and excluding the positive net flows that might arise from structural changes in the business or in its efficiency. Specifically, the projection of cash flows takes as a starting hypothesis the projection of the results of the financial years for which planning is prepared.

With regard to the goodwill resulting from the business combination, consisting of the acquisition of assets from Seguros Lagun Aro, S.A., at the close of 2019 and 2018 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 2024, plus a calculation of its terminal value applying a 1% perpetuity growth rate, which corresponds to the target inflation rate in the economic environment in which the company operates. Previous experience has been greater than this 1%. Financial projections are based on the following key variables: the changes in the gross margin of direct insurance (conditional upon expected business volumes and interest rates) and the changes in the rest of the profit and loss account items and the 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)

Under this method, the pre-tax discount rate applied to the cash flow projections was 5.01%, as the cost of capital was considered internally. This estimate of the cost of capital is in line with those applied by independent analysts in the sector.

Annualised growth rates used in the forecast period (CAGR) for earned premiums have ranged between 0.25% and 3.86%, and for technical insurance expenses have ranged between -0.57% and 2.96%.

As at 31 December 2019 and 2018, sensitivity analyses were conducted on the key valuation variables, and it was concluded that there was no evidence of impairment.

Under current tax legislation, as at 31 December 2019 and 2018, generated goodwill is not tax deductible.

(Expressed in thousands of euros)

32. Tax assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
Current taxes:	1,242	2,757	12,595	4,474
Corporate income tax	682	-	2,902	3,620
VAT	-	1,980	722	-
Withholdings refundable/payable	560	777	-	-
Others	-	-	8,971	854
Deferred taxes:	283,823	257,468	66,155	53,569
Value adjustments for financial instruments	58,307	17,585	31,463	18,046
Fixed asset restatement	-	-	29,662	30,493
Opening fees	1,285	1,606	-	-
Tax credits	177,983	186,861	-	-
Reinvestment of fixed assets	-	-	-	-
Provision for pensions and similar obligations	6,916	11,257	-	-
Insolvency fund and other provisions	35,950	35,765	-	-
Depreciation of fixed assets	-	-	-	-
Impairment of shareholdings	-	-	-	-
Revaluation of own financial liabilities-mortgage certificates	-	-	5,030	5,030
Deposit Guarantee Fund	-	-	-	-
Other items	3,382	4,394	-	-
	285,065	260,225	78,750	58,043

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2019 and 2018 between accounting and tax criteria which have been recorded as Deferred tax assets and Deferred tax liabilities upon calculation and recording of the corresponding tax expense related to profit from continuing operations.

Movements in 2019 and 2018 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2019	2018	2019	2018
Balance at the beginning of the year	257,468	277,333	53,569	107,926
Increases / (decreases)	26,355	(19,865)	12,586	(54,357)
Bad-debt provision and other provisions	185	(106)	-	-
Reinvestment of fixed assets	-	-	-	-
Valuation adjustments for financial instruments	40,722	(10,182)	13,417	(53,780)
Fixed-asset revaluation	-	-	(831)	(577)
Opening fees	(321)	1,606	-	-
Tax credits	(8,878)	(10,899)	-	-
Provision for pensions and similar obligations	(4,341)	(364)	-	-
Deposit Guarantee Fund	-	-	-	-
Others	(1,012)	80	-	-
Balance at the close of the year	283,823	257,468	66,155	53,569

Deferred tax assets for unrecognised tax losses and deductions are recognised to the extent that it is probable that the related tax benefit be realised through taxable profit in the next 10 years, from the year-end. As at 31 December 2019, the Parent Entity had recognised deferred tax assets for the aforementioned items amounting to 147,300 thousand euros and 30,683 thousand euros, respectively (157.45 thousand euros and 29,402 thousand euros, respectively, as at 31 December 2018), which are expected to be offset in future years against the tax benefits generated by the Parent Entity, as indicated in the Management's Annual Management Plans.

(Expressed in thousands of euros)

The Parent Company carries out an annual evaluation exercise of the recoverability of deferred tax assets recorded as at 31 December 2019 on the basis of a projection of its future income, which supports their recoverability within a period of less than 10 years.

Pursuant to the Second Final Provision of Royal Decree-Law 14/2013, dated 29 November, on urgent measures for the adaptation of Spanish law to European Union regulations on the supervision and solvency of financial institutions, and its transposition into regional regulations in accordance with the provisions of Regional Regulation 17/2014, dated 16 December, of the Regional Government of Gipuzkoa, the Group has deferred tax assets available for conversion into receivables from the tax authorities amounting to an estimated 147 million euros as at 31 December 2019 (158 million euros as at 31 December 2018). Also, as from the 2016 financial year, in order for this conversion to be effective, it has an equity benefit associated with it of 1.5% of the amount of the aforementioned assets (Note 56).

Note 40 outlines the Group's tax matters in further detail.

33. Other assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
Stocks	68,127	48,621	-	-
Accruals for fees and commissions	34,865	22,396	-	-
Other accruals	4,267	14,089	57,481	57,621
Transactions in progress	813	39	2,080	300
Commercial creditors and other accounts payable	-	-	1,234	-
Community projects fund	-	-	13,914	13,089
Other items	493	1,619	6,177	4,236
	108,565	86,764	80,886	75,246

As mentioned in Note 10, as at 31 December 2019 and 2018 the heading "Other assets – other accrual items" includes 10,568 thousand and 14,091 thousand euros, respectively, relating to the contribution to be made to the Deposit Guarantee Fund under Royal Decree-Law 2/2012, dated 3 February.

Transfers were made from "Non-current assets and disposal groups of items classified as held for sale" to "Other assets - Inventories" in 2019 and 2018, amounting to 6,455 thousand and 7,951 thousand euros, respectively, related to foreclosed assets to be promoted and developed by the Group.

(Expressed in thousands of euros)

Community projects fund

Set out below is a breakdown of this item included under the heading "Other liabilities" in the consolidated balance sheets as at 31 December 2019 and 2018:

	2019	2018
Education and Development Fund	13,914	13,089
Allocation:	13,914	13,089
Applied to Tangible assets	-	-
Applied to other investments - Financial assets at fair value with changes in other comprehensive income/available for sale (Note 25)	3,437	3,437
Expenses committed during the year	9,485	8,591
Current year maintenance expenses	(9,485)	(8,591)
Amount not committed	10,477	9,652
Revaluation reserves	-	-
	13,914	13,089

Movements during 2019 and 2018 in the balance of the Community Projects Fund are as follows:

	2019	2018
Balance at the beginning of the year	13,089	13,017
Mandatory provision charged against the surplus for the year (Notes 4 and 56)	10,332	9,485
Maintenance costs for the year	(9,485)	(8,591)
Fixed asset depreciation (Note 30)	-	(26)
Deregistration of fixed assets related to community projects (Note 30)	-	(703)
Others	(22)	(93)
Balance at year end	13,914	13,089

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 allocated 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 welfare or cultural needs of the community, or to be invested in assets that meet these objectives. In this respect, the mandatory allocation for 2018 and 2017 amounted to 9,485 thousand and 8,591 thousand euros, respectively; and in 2019, 4,428 thousand and 2,021 thousand euros (4,338 and 1,504 thousand euros in 2018) were allocated to the financing of corporate institutions of the MONDRAGON Group and to the Inter-cooperative Education and Development Fund, respectively.

(Expressed in thousands of euros)

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

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Tangible assets	172,361	207,496
Property, plant and equipment for own use	23,565	30,031
Investment properties	6,902	6,075
Foreclosed tangible assets	599,400	647,825
Value adjustments due to asset impairment	(457,506)	(476,435)
	172,361	207,496

Movements during 2019 and 2018 in Non-current assets and disposal groups classified as held for sale are as follows:

	2019	2018
Individualised items:		
Balance at the close of the previous year	207,496	227,235
Impact of the first application of IFRS 9 (Note 2.3)	-	219
Balance at the beginning of the year	207,496	227,454
Additions	12,019	22,726
Disposals	(17,894)	(11,749)
Net impairment provisions (Note 66)	(21,158)	(28,099)
Transfers to tangible assets (Note 30)	(1,647)	5,115
Transfers to write-off assets	-	-
Transfers to inventories (Note 33)	(6,455)	(7,951)
Balance at the close of the year	172,361	207,496

The breakdown of the impairment losses or reversals of Non-current assets and disposal groups of items classified as held for sale, recognised in the consolidated profit and loss account for the years ended 31 December 2019 and 2018, is as follows (see Note 67):

	2019	2018
Tangible assets	(21,158)	(28,099)
Other assets	-	-
	(21,158)	(28,099)
Allocations charged to P&L	(21,158)	(28,099)
	(21,158)	(28,099)

The movement in Value Adjustments due to asset impairment under "Non-current assets and disposal groups classified as held for sale" during 2019 and 2018 is as follows:

	2019	2018
Balance at the close of the previous year	476,435	523,512
Impact of the first application of IFRS 9 (Note 2.3)	-	(219)
Balance at the beginning of the year	476,435	523,293
Net provisions charged to P&L	21,158	28,099
Transfer of Financial assets at amortised cost (Note 25)	4,191	9,039
Transfer to failed assets against constituted funds and disposals	(27,775)	(58,158)
Transfers to inventories (Note 33)	(14,542)	(27,535)
Transfers to tangible assets (Note 30)	(1,961)	1,697
	457,506	476,435

(Expressed in thousands of euros)

The breakdown of Measurement Adjustments for asset impairment under Non-current assets and disposal groups classified as held for sale, as at 31 December 2019 and 2018 is as follows:

	2019	2018
Individualised items	457,506	476,435
	457,506	476,435

35. Financial liabilities at amortised cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Central bank deposits	296,640	297,857
Credit institution deposits	6,372	9,061
Customer deposits	21,425,085	19,481,080
Debt securities issued	76,840	104,631
Other financial liabilities	376,930	336,516
	22,181,867	20,229,145

The breakdown by currency and maturity of "Financial liabilities at amortised cost" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
By currency:		
In Euro	22,153,423	20,201,398
In US dollars	27,015	25,143
Pounds sterling	1,109	1,505
Swiss francs	24	103
Japanese yen	133	162
Others	163	834
	22,181,867	20,229,145
By maturity:		
On demand	15,313,283	14,735,748
Up to 1 month	1,892,315	1,097,430
Between 1 month and 3 months	618,807	573,183
Between 3 months and 1 year	2,325,639	1,856,722
Between 1 year and 5 years	1,466,286	1,509,653
More than 5 years	112,131	134,491
Maturity not determined	385,565	213,322
Valuation adjustments	67,841	108,596
	22,181,867	20,229,145

(Expressed in thousands of euros)

a) Central bank deposits

The balance of Deposits by central banks in the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

	2019	2018
Bank of Spain	300,000	300,000
Valuation adjustments	(3,360)	(2,143)
	296,640	297,857

As indicated in Note 16, in accordance with the Entity's active funding and liquidity monitoring policy, during the 2017 financial year the second series of longer-term refinancing operations with a specific objective (TLTRO II) announced by the European Central Bank was used to finance a total of 300 million euros.

The average annual interest rates on Central bank deposits in 2019 and 2018 was -0.40% in both years.

The limit assigned by the Bank of Spain to the Parent Entity as at 31 December 2019 in the credit system guaranteed by public funds amounted to 1,086,092 thousand euros (1,023,476 thousand euros as at 31 December 2018).

b) Credit institution deposits

The balance of Credit institution deposits in the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

	2019	2018
Term accounts	6,345	9,042
Repurchase agreements	-	-
Other accounts	15	2
Valuation adjustments	12	17
	6,372	9,061

The average rates of interest per annum on Credit institution deposits in 2019 and in 2018 were -0.45% and 1.135% respectively.

(Expressed in thousands of euros)

c) Customer deposits

Set out below is a breakdown of the balance of Customer deposits in the consolidated balance sheets as at 31 December 2019 and 2018:

	2019	2018
Spanish Government Bodies	420,046	279,613
Repurchase agreements with counter-parties	522,932	-
Other resident sectors:	20,435,830	19,158,050
Demand deposits	15,624,268	14,294,314
Current accounts	4,988,669	4,392,563
Savings accounts	10,610,029	9,879,834
Others	25,570	21,917
Fixed-term deposits:	3,650,292	3,930,104
Time deposits	3,600,666	3,884,735
Others	49,626	45,369
Repurchase agreements	1,090,090	822,910
Valuation adjustments	71,180	110,722
Interest accrued	31,714	29,629
Micro-hedging transactions	39,466	81,093
Other non-resident sectors	46,277	43,417
	21,425,085	19,481,080

Average rates of interest per annum during 2019 and 2018 on Customer deposits may be broken down by product as follows:

	2019	2018
Demand deposits	0.03%	0.02%
Fixed- term deposits	0.11%	0.11%

As at 31 December 2019, 1,125 million euros (1,225 million euros as at 31 December 2018) were recorded under the heading “Term deposits”, relating to the issue by the Parent Entity of one-off mortgage bonds, which were underwritten by various Asset Securitisation Funds, the characteristics of which are as follows:

	Mortgage bond			
		Nominal amount (Thousands of euros)		
Fund name	Disbursement date	2019	2018	Maturity date
TDA5 bonds, Asset Securitisation Fund	29/11/2004	-	100,000	27/11/2019
IM Bonds 5, Asset Securitisation Fund	15/06/2005	500,000	500,000	15/06/2020
IM Bonds 7, Asset Securitisation Fund	31/03/2006	625,000	625,000	31/03/2021
		1,125,000	1,225,000	

The annual nominal interest rate of the bonds issued as at 31 December 2019 ranges between 3.51% and 4.01% (between 3.51% and 4.12% as at 31 December 2018). The heading “Other resident sectors - Value adjustments”, as at 31 December 2019, includes 39,466 thousand euros (81,093 thousand euros as at 31 December 2018), which mainly relate 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 27.

(Expressed in thousands of euros)

The heading "Other sectors - Term deposits - Other" includes 76,234 thousand euros as at 31 December 2019 (103,934 thousand euros as at 31 December 2018), relating to the net amount of financing obtained in the issue of bonds through the securitisation funds "I.M. Caja Laboral 1, F.T.A.", "I.M. Caja Laboral 2, F.T.A.". Certain loans were contributed to these funds and, as they do not comply with the requirements for derecognition, they remain on the Entity's balance sheet as at 31 December 2019 and 2018 (Note 25).

This heading mainly includes the outstanding balance of the loans contributed to these funds amounting to 495,314 thousand euros (549,004 thousand euros as at 31 December 2018), net of the bonds subscribed by the Group amounting to 384,407 thousand euros (410,170 thousand euros as at 31 December 2018).

It is to be noted that it is the Group's intention to use the bonds subscribed to the "I.M. Caja Laboral 2 F.T.A." fund as collateral in the implementation of Eurosystem credit transactions.

In Laboral Kutxa's capacity as issuer of mortgage bonds and in compliance with the provisions of article 21 of Royal Decree 716/2009 (of 24 April) and Bank of Spain Circular 7/2010 (of 30 November), Note 69 to these annual consolidated annual accounts includes the information regarding the special accounting treatment applicable to issuers of mortgage bonds and certificates.

Set out below is a breakdown by currency and maturity of the balance of Customer deposits in the consolidated balance sheets as at 31 December 2019 and 2018:

	2019	2018
By currency:		
In Euro	21,396,641	19,453,333
In US dollars	27,015	25,143
Pounds sterling	1,109	1,505
Swiss francs	24	103
In Japanese yen	133	162
Others	163	834
	21,425,085	19,481,080
By maturity:		
On demand	15,205,991	14,586,429
Up to 1 month	1,891,721	1,097,430
Between 1 month and 3 months	618,448	573,183
Between 3 months and 1 year	2,320,124	1,856,629
Between 1 year and 5 years	1,165,230	1,209,650
More than 5 years	16,842	10,939
Maturity not determined	135,540	36,098
	21,353,896	19,370,358
Valuation adjustments	71,189	110,722
	21,425,085	19,481,080

d) Debt securities issued

Set out below is a breakdown of the balance of debt securities issued in the consolidated balance sheets as at 31 December 2019 and 2018:

	2019	2018
Promissory notes and bills	-	-
Other non-convertible securities	-	-
Mortgage securities	151,840	254,631
Own securities	(75,000)	(150,000)
Valuation adjustments	-	-
	76,840	104,631

(Expressed in thousands of euros)

Mortgage securities

During 2006 the Group contributed certain mortgage loans to the “I.M. Caja Laboral 1, F.T.A. securitisation funds.” for the issue of security bonds. Also, during 2008 and 2011 the Group contributed certain loans to the “I.M. Caja Laboral 2, F.T.A..” and "IM Caja Laboral Empresas 1, F.T.A.” securitisation funds (the latter was settled in advanced during 2016 (Note 25)), 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 collateral security in credit operations with the Eurosystem.

As at 31 December 2019 the the cash amount of the securitisation bonds issued through the “I.M. Caja Laboral 1, F.T.A..” and "I.M. Caja Laboral 2, F.T.A..” which were subscribed by third parties outside the Group amounts to 76,840 thousand euros (104,631 thousand euros, as at 31 December 2018). 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.

As at 31 December 2014, this heading also included €150 million corresponding to two issues of Mortgage bonds maturing between 2019 and 2020 which were fully subscribed by the European Investment Bank.

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, as at 31 December 2019 and 2018 no balance is reflected under this heading because the nominal value of these mortgage secured bonds is included under "Own securities".

In 2019, one of the mortgage bonds issued by the European Investment Bank matured for a nominal value of 75 million euros, referenced to the 3-month Euribor plus a margin of 3.55%.

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

Movements in 2019 and 2018 in Debt securities issued are set out below:

	2019	2018
Balance at the beginning of the year	104,631	149,550
Issues	-	-
Securities issued by third parties	-	-
Amortisation	(27,699)	(45,128)
The Group's own securities	-	-
Valuation adjustments	(92)	209
Balance at the close of the year	76,840	104,631

(Expressed in thousands of euros)

e) Other financial liabilities

The breakdown of the balance of the heading Other financial liabilities in the balance sheet as at 31 December 2019 and 2018 is as follows:

	2019	2018
Obligations payable	40,262	6,721
Guarantees received	66,821	117,299
Clearing Houses	13,937	13,136
Collection accounts	96,892	101,621
Special accounts	68,133	2,608
Accruals for financial guarantees	2,335	2,368
Other items	88,550	92,763
	376,930	336,516

Under the heading “Other Concepts”, the Group recognised a lease liability of 30,428 thousand euros as at 31 December 2019 (Note 30), due to the entry into force, on 1 January 2019, of IFRS 16 (Note 2.4).

36. Liabilities covered by insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Technical provisions for insurance:	489,419	490,168
Technical provisions for unearned premiums and current risks	69,479	69,527
Direct insurance	69,479	69,527
Mathematical technical provisions	419,940	420,641
Direct insurance	419,940	420,641
Technical provisions for life insurance when the investment risk is assumed by policyholders:	316	298
Direct insurance	316	298
Technical provisions for benefits:	88,613	86,409
Direct insurance	88,613	86,409
Technical provisions for profit sharing and rebates:	334	64
Direct insurance	334	64
Deposits received in respect of ceded reinsurance	11,057	10,887
Debts due to reinsurance operations	2,325	2,651
	592,064	590,477

37. Provisions

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Pensions and other post-employment defined benefit obligations	24,700	40,204
Other long-term employee benefits	-	-
Pending procedural issues and tax disputes	-	-
Commitments and guarantees given	20,224	19,479
Other provisions	130,018	128,732
	174,942	188,415

(Expressed in thousands of euros)

Movements in Provisions during 2019 and 2018 are set out below:

	Pensions and other post-employment defined benefit obligations	Other long-term employee benefits	Pending procedural issues and tax disputes	Commitments and guarantees given	Other provisions	Total
As at 31 December 2018						
Balance at the beginning of the year	41,504	-	-	20,992	129,379	191,875
Additions, including increases in existing provisions	12,514	-	-	15,074	15,156	42,744
(-) Amounts used	(12,590)	-	-	-	(24,618)	(37,208)
(-) Unused amounts reversed during the period	(1,224)	-	-	(16,073)	(4,072)	(21,369)
Other movements	-	-	-	(514)	12,887	12,373
Balance at year-end	40,204	-	-	19,479	128,732	188,415
As at 31 December 2019						
Balance at the beginning of the year	40,204	-	-	19,479	128,732	188,415
Additions, including increases in existing provisions	-	-	-	12,275	17,965	30,240
(-) Amounts used	(14,789)	-	-	-	(30,400)	(45,189)
(-) Unused amounts reversed during the period	(721)	-	-	(12,590)	(1,133)	(14,444)
Other movements	6	-	-	1,060	14,854	15,920
Balance at year-end	24,700	-	-	20,224	130,018	174,942

a) Pensions and other post-employment benefit obligations

As at 31 December 2019 and 2018, the Parent Entity had entered into future commitments with some of its partners under the voluntary agreement to adhere to the "PD 58", "PD 59", "PD 60" and "New Network" plans. Consequently, the Parent Entity has recorded provisions to cover commitments for serving personnel accruing since the date of implementation of the scheme to the date on which they cease their employment with the Parent Entity for the salary supplements and other welfare charges that they will receive until the employees' actual retirement.

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

	2019	2018
Commitments entered into	24,700	40,204
	24,700	40,204
Hedges		
Internal funds	24,700	40,204
	24,700	40,204

On 31 December 2019 and 2018 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 or she becomes entitled to retire.

(Expressed in thousands of euros)

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

	2019	2018
Discount rate	0%	0%
Growth in advance gross future consumption	0%	0%
Growth in benefits	0%	0%
Retirement age	Earliest possible age	Earliest possible age

The IPC expiry estimate used in the valuation is 0.08% for the year 2020, 1.10% for the year 2021 and 2% from 2022. As at 31 December 2018, the estimate used for these years was 2%.

The discount rate applied to the commitments was determined on the basis of the duration of the commitment – 1.3 years – and the reference curve was calculated based on the Euro Denominated Corporate Bonds AA curve as at 31 December 2019 (Source: Bloomberg).

b) Other provisions

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

The Group's general policy is to record provisions for legal proceedings in which the risk of loss is deemed probable and no provisions are recorded when the risk of loss is possible or remote. The amounts to be allocated are calculated in accordance with the best estimate of the amount required to settle the corresponding claim, based, inter alia, on an individualised analysis of the facts and legal opinions of the internal and external advisers or taking into account the historical average number of losses arising from claims of this nature. The final date of the release of resources which incorporate economic benefits for the Group depends on each one of the obligations. In some cases, the obligations do not have a fixed settlement period and, in other cases, they depend on ongoing legal processes.

The Group has estimated the obligations relating to each claim and/or legal process and has recognised, when necessary, adequate provisions that reasonably cover the liabilities that might arise from the claims received and/or from the legal proceedings opened.

c) Reference rate for mortgages in Spain

In relation to the reference rate for mortgages in Spain, a preliminary request has been made to the Court of Justice of the European Union (CJEU) which contests the validity, due to the alleged lack of transparency, of mortgage loan contracts subject to the official reference rate known as IRPH (Índice de Referencia de Préstamos Hipotecarios).

The legal aspect in question is the control of transparency based on Article 4. 2 of Directive 93/13, in cases where the borrower is a consumer. Since the IRPH is the price of the contract and is included in the definition of the main object of the contract, it must be drafted in a clear and understandable manner so that the consumer is in a position to assess, on the basis of clear and understandable criteria, the economic consequences of the contract for him/her.

Although the European Commission considers that transparency requires a full explanation of the characteristics of the index and its operation, showing the available or official index comparisons, the banking institutions and the Kingdom of Spain in its legislation, consider that an official index is public, transparent and supervised by the competent authorities and that the essential and compulsory legal instrument for comparing prices in Spain is the APR (annual percentage rate of charge), which encompasses the total price and the financial burden of the loan made up of the expenses, commissions, index and the applicable differential.

(Expressed in thousands of euros)

The above-mentioned preliminary request was made by a District Court several months after the Supreme Court, on 14 December 2017, issued a judgement declaring the validity of these contracts.

On 10 September 2019, the Advocate General issued an opinion in which, in view of the claims of the European Commission, he confirmed the transparency of the index and the non-need to provide future scenarios of possible behaviour of the index and comparisons between different indexes, emphasising the need for the pre-contractual information regulated by the legislation in force to have been provided.

The recent opinion of the Advocate General, the existence of the prior ruling of the Supreme Court, the fact that the IRPH is an official reference rate, published and managed by the Bank of Spain, the existence of the jurisprudence of the CJEU confirming the transparency of contracts referenced to other official reference indices, and the existence of the APR (which consumers must be informed of and which allows the economic burden to be understood and the different mortgage offers to be compared, whatever the applicable reference rate) are facts which, with the information currently available, determine that the probability of an unfavourable ruling is considered low.

On the other hand, it is difficult to quantify in advance the impact of a ruling by the CJEU which, disassociating itself from the opinion of the Advocate General and following the theses of the European Commission, would ultimately be unfavourable, since it would depend on a set of very uncertain factors, the most relevant being: (i) what should be the rule for the replacement of such an index (i.e. how should the interest on the loan be calculated), (ii) whether or not and until what date it should be applied retroactively (if the CJEU ruling were to conclude that it should be applied retroactively), (iii) how many well-founded complaints about lack of transparency would be raised. Thus, in any of the possible scenarios that might arise, the effect on the Group's solvency or equity would in no case be significant.

As at 31 December 2019, the total amount of mortgage loans up to date with payment, indexed to IRPH, with individuals is approximately 41.2 million euros.

38. Equity

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Capital	759,608	741,461
Other reserves	913,393	858,321
(Treasury shares)	(1,839)	(1,620)
Profit/(loss) attributable to owners of the parent entity	127,364	124,173
(Interim dividends)	(34,233)	(33,492)
	1,764,293	1,688,843

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 Articles of Association (Note 1), the total amount of contributions by each member may not exceed 20% of share capital, for legal entities, and 2.5% of share capital, for individuals. Members' liability for the entity's debts is equal to the value of their contributions.

(Expressed in thousands of euros)

For each year, the General Assembly, at the proposal of the Governing Body, approves, where appropriate, the remuneration on account applicable to these contributions, which, in accordance with the Regulations concerning the Credit Cooperative Law, may not exceed the legal interest rate increased by six points. The rate applied for ordinary contributions in the years 2019 and 2018 was 4.5% per year in both years.

Movements in 2019 and 2018 in the Parent Entity's capital balance are set out below:

	2019	2018
Balances at the beginning of the year	741,461	727,167
Cooperative returns from the distribution of previous year's surplus (Note 4)	23,711	21,478
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	457	1,497
- Members and others	97	1,590
Less, liquidation of contributions owing to departures		
- Associate cooperatives	(964)	(2,529)
- Members and others	(5,154)	(7,742)
Transfers to capital classed as financial liabilities	-	-
Balances at the end of the year	759,608	741,461

As at 31 December 2019, 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 15.10% (15.21% in 2018).

During the 2013 and 2012 financial years, the Parent Company issued two new equity contributions:

i) The first issue was aimed at working members, collaborating members and Associated Cooperatives, with a subscription term from April to October 2012. As at 31 December 2019 and 2018, the amount subscribed for this first issue was 35,333 thousand and 35,563 thousand euros, respectively. The remuneration associated with the first issue is an annual rate of 7.5% up to 15 December 2015, on which date the remuneration was aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

ii) The second issue was launched in December 2012 and is targeted at customers with specific ties to the Parent Entity. As at 31 December 2019 and 2018, subscriptions for this second issue were 55,753 thousand euros and 56,091 thousand euros, respectively. The remuneration on this second issue is an annual rate of 6% until 30 December 2014, on which date remuneration aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

(Expressed in thousands of euros)

Contributions (shares 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 Articles of Association, and by succession "mortis causa", if the successor is a member or acquires member status within six months. In the event of departure, the member or his successors are entitled to request the reimbursement of the contributions to share capital, the value of which, following the relevant reduction, where appropriate, by a percentage determined by the Governing Body on the basis of the reason for the forfeiture of member status, will be estimated based on the balance sheet approved by the General Assembly following the definitive departure date. The reimbursement period will be set by the Governing Body and may not exceed five years following the date of departure or one year from the member's death, where appropriate.

Final Provision Six of Royal Decree 1309/2005, dated 4 November, introduced certain amendments to Article 10 of Royal Decree 84/1993 which approved the Regulations on credit cooperatives, which enabled credit cooperatives to establish restrictions in their articles of association on the reimbursement of members' contributions to capital. The Parent Entity's Articles of Association 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 Articles of Association, minimum share capital is 10,000 thousand euros and must be fully paid up.

As at 31 December 2019 and 2018, equity instruments in subsidiaries held by the Parent Entity and Caja Laboral Euskadiko Kutxa Cartera, S.L.U. and their nominal values, as well as payments pending on those dates, were as follows:

	2019			2018		
	Number of shares	Nominal value (in euros)	Payments pending	Number of shares	Nominal value (in euros)	Payments pending
Seguros Lagun Aro Vida, S.A.	285,000	111.88	-	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	-
ISGA Inmuebles, S.A.	60,000	1	-	60,000	1	-

(Expressed in thousands of euros)

Other reserves

Set out below is a breakdown of the balance of other reserves in the consolidated balance sheets as at 31 December 2019 and 2018:

	2019	2018
Reserves or accumulated losses of investments in joint ventures and associates:	-	191
Associated Entities	-	191
Jointly-controlled entities	-	-
Revaluation reserves:	-	-
Parent Entity	-	-
Others:	913,393	858,130
Reserves (losses) attributed to Parent Entity	1,044,068	999,423
Reserves (losses) attributed to Subsidiaries	(130,675)	(141,293)
	913,393	858,321

The movements experienced during the 2019 and 2018 financial years in the balance of Other Reserves are shown below:

	2019	2018
Balance as at 31 December 2018	858,321	809,891
Impact of the first application of IFRS 9 (Note 2.3)	-	(3,447)
Balance as at 01 January 2019	858,321	806,444
Prior year profit distribution	52,743	49,371
Net membership contributions	16	18
Others	2,313	2,488
Balance as at 31 December 2019	913,393	858,321

Law 13/1989, of 26 May 1989, on Credit Cooperatives, partially amended by Law 20/1990, of 19 December 1990 on the Tax Regime applicable to Cooperatives, established new bases for arranging credit in relation to these entities. In 1993 Royal Decree 84/1993, of 22 January 1993, was published which approves the enabling regulations of Law 13/1989, of 26 May 1989, on Credit Cooperatives. The criteria employed to distribute the surplus available from the financial year are described in Note 4.

Mandatory Reserve Fund

As at 31 December 2019 and 2018, the Other Reserves heading included 713,487 thousand and 666,048 thousand euros, respectively, corresponding to the Mandatory Reserve Fund. Law 13/1989 established that at least 50% of the available surplus for the year should be allocated 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 allocated to the Mandatory Reserve Fund. Under the Parent Entity’s current Articles of Association, 50%, at least, of the available surplus for the year should be distributed. A breakdown is included in Note 4.

Reserve for insolvency risks

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

(Expressed in thousands of euros)

Revaluation reserve

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

Voluntary Reserves

On 26 December 2011, the Governing Board of the Parent Entity, with a view to simplifying the composition of its own funds, particularly its reserve accounts, and on the basis of analysis thereof, determined that, considering the grounds for their original constitution and the time elapsing since then, the reserve for insolvency risks, the revaluation reserve and the reserve for first-time transition to new accounting rules effectively constituted unrestricted reserves. On the basis of the above, the members of Caja Laboral approved the unification of these reserves into a single reserve heading called “Voluntary reserves” for a total amount of 88,947 thousand euros at the General Assembly meeting of 28 April 2012. The Parent Entity registered the transfer at the 2011 year-end.

The breakdown by Entity of the balance of Other reserves – Reserves/(losses) attributable to Subsidiaries, as at 31 December 2019 and 2018 was as follows:

	2019	2018
Seguros Lagun-Aro Vida, S.A. (*)	4,557	2,597
Caja Laboral Gestión, SGIIC, S.A.	1,608	1,256
Caja Laboral Pensiones, G.F.P., S.A.	149	105
Seguros Lagun-Aro, S.A. (*)	3,803	10,858
Caja Laboral Kutxa Cartera, S.L.U.	8,035	1,505
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	3,380	2,631
Sociedad Gestión Activos Caja Laboral, S.A.U.	(12,233)	(13,149)
ISGA Inmuebles, S.A.	(139,974)	(147,096)
	(130,675)	(141,293)

(*) Includes the consolidated effect of the entity Seguros Lagun Aro 2003, A.I.E.

The breakdown of the balance of reserves or accumulated losses of investments in joint ventures and associates as at 31 December 2019 and 2018 is as follows:

	2019	2018
Associates:	-	191
ICR Institutional Investment Management, S.G.I.I.C., S.A.	-	191
Jointly-controlled entities:	-	-
	-	191

(Expressed in thousands of euros)

Provided below is a breakdown by Entities of the contribution to Income attributed to the Group as at 31 December 2019 and 2018:

	2019	2018
Parent Entity	123,448	104,932
Subsidiaries:	3,924	19,409
Seguros Lagun Aro Vida, S.A. (*)	3,801	2,209
Caja Laboral Gestión S.G.I.I.C., S.A.	1,663	1,352
Caja Laboral Pensiones, G.F.P., S.A.	165	44
Seguros Lagun Aro, S.A. (*)	8,129	6,299
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(11)	(11)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	2,643	1,790
Sociedad Gestión Activos Caja Laboral, S.A.U.	(55)	852
ISGA Inmuebles, S.A.	(12,411)	6,874
Entities accounted for using the equity method:	(8)	(168)
- Associates:	(8)	(168)
ICR Institutional Investment Management, S.G.I.I.C., S.A.	-	(168)
Ategi Green Power, S.L.	(8)	-
	127,364	124,173

(*) Includes the consolidated effect of the entity Seguros Lagun Aro 2003, A.I.E.

39. Other accumulated comprehensive income

The breakdown of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	2019	2018
Items that may be reclassified to profit or loss:	(87,287)	(15,835)
Hedging derivatives. Cash flow hedging (effective part):	(138,336)	(30,156)
Financial assets with changes in other comprehensive income.	51,049	14,321
Debt instruments	51,049	14,321
Equity instruments	-	-
Items that will not be reclassified to profit or loss	16,492	14,940
Financial assets with changes in other comprehensive income.	16,492	14,940
Equity instruments	16,492	14,940
	(70,795)	(895)

The balance included in “Other accumulated comprehensive income - Financial assets with changes in other comprehensive income - Debt instruments” of the Net Equity corresponds to the net amount of those variations in the fair value of said fixed income financial instruments that must be classified as an integral part of the Group net Equity. When available-for-sale assets are sold, the changes are recorded in the consolidated profit and loss account.

The balance included in “Other accumulated comprehensive income - Financial assets with changes in other comprehensive income - Equity instruments” of the Net Equity corresponds to the net amount of those variations in the fair value of said equity instruments that must be classified as an integral part of the Group net Equity. When financial assets are sold, the changes are recorded under "Other reserves" in Net Equity (Note 38).

The changes in the total of the "Other accumulated comprehensive income" heading in equity in 2019 and 2018 were as follows:

(Expressed in thousands of euros)

	2019	2018
Balance at the close of the previous year	(895)	109,065
Effects of the application of IFRS 9 (Note 2.3)	-	(77,805)
Balance at the beginning of the year	(895)	31,260
Net movement charged to reserves	(1,198)	(484)
Net movement charged /(credited) to P&L	(321)	(22,415)
Sales and depreciation	(505)	(17,637)
Impairment losses (net) charged against profit and loss	184	(4,778)
Revaluations gains / (losses), net	39,799	(9,936)
Variations in micro-hedging cash flows	(108,180)	680
Others	-	-
	(70,795)	(895)

In order to adequately evaluate the evolution of this heading, the exceptional circumstances in the financial markets during 2019 and 2018 must be taken into consideration, as explained in Note 18.

The breakdown by Entity of the amount included in "Other accumulated comprehensive income" in Net Equity as at 31 December 2019 and 2018 was as follows:

	2019	2018
Parent Entity	(90,430)	(18,259)
Subsidiaries:	19,635	17,364
- Seguros Lagun-Aro Vida, S.A.	18,474	17,568
- Seguros Lagun Aro, S.A.	1,161	(204)
Associates and Jointly-controlled companies	-	-
	(70,795)	(895)

40. Tax situation

The Parent Entity and Investees file individual income tax returns in accordance with the 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 financial subsidiaries, the applicable tax rate was 24% in 2019 (26% in 2018).

The legislation applicable to the payment of corporate income tax for 2018 for the main Investees consists of Provincial Regulation 2/2014, of 17 January, the Gipuzkoa regional authority and Provincial Regulation 11/2013, of 5 December, of the Bizkaia regional authority, depending on the region in which each investee operates and files its corporate income tax returns.

The Directors of the Parent Entity and the Investees have calculated the amounts related to this tax for 2019, and those years open to inspection, in accordance with the regional legislation in force at each year end.

The tax losses and deductions generated under Gipuzkoa's provincial regulations are limited to 30 years.

(Expressed in thousands of euros)

The reconciliation for the Parent Entity of the individual accounting result for 2019 and 2018, with the corporate income tax base was as follows:

	2019	2018
Accounting profit for the year before tax (*)	149,328	139,829
Permanent differences		
Increases		
- Non-deductible expenses	51	107
- Other items	-	2,561
Decreases		
- Mandatory allocation to Development and Education Fund (Note 56) (*)	(10,332)	(9,485)
- Allocation to the Inter-Coop Welfare Fund	(14,227)	(12,887)
- Gross deductible interest paid on account for contributions to share capital	(34,316)	(33,565)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(25,831)	(23,711)
- Reinvested capital gains from the sale of real estate for exploitation	(3,653)	(10,927)
- Deductions for double taxation	(14,711)	(6,788)
- Other items	-	-
Accounting tax base	46,309	45,134
Temporary differences		
- Arising in the current year	(13,815)	(2,953)
- Revitalisation Plan	(15,504)	(1,300)
- Allocations to other provisions	659	(378)
- Opening fees (IFRS 9 - Note 2.3)	(1,147)	(1,275)
- Others	2,177	-
- Arising in previous years	2,906	1,967
Tax base	35,400	44,148
Offset of tax losses	(35,400)	(44,148)
Net tax base	-	-
Gross amount payable (28%)	-	-
Deductions and allowances	-	-
Net amount	-	-
Withholdings and payments on account	(560)	(778)
Corporate income tax payable / (refundable)	(560)	(778)

(*) Profit before tax, without considering the mandatory allocation to community projects and social funds, included under the heading Other operating expenses in the consolidated profit and loss account (Note 56).

Below is a summary of "Tax expenses or (-) income related to profit from continuing operations" in the Parent Entity's 2019 and 2018 profit and loss accounts:

	2019	2018
Accounting basis at applicable rate	12,967	12,637
Deductions and allowances	(1,167)	(1,235)
Other items	(111)	16
	11,689	11,418

(Expressed in thousands of euros)

The composition of "Expenditure or (-) Income for Taxes on Profit from continuing operations" in the consolidated profit and loss account for 2019 and 2018 is as follows:

	2019	2018
Accounting basis at applicable rate	12,967	12,637
Deductions and allowances	(1,167)	(1,235)
Other items	(111)	16
Tax on profits of the Parent Company	11,689	11,418
Tax on profits of the Investee Entities		
Accounting basis at applicable rate	4,333	3,287
Other items	-	-
	16,022	14,705

In addition to the "Expenditure or (-) Income for Taxes on Profit from continuing operations" in the profit and loss account, deferred taxes arising from other accumulated comprehensive income from equity in 2019 and 2018 were generated or reversed for the following items and amounts:

	2019	2018
Hedging derivatives Cash flow hedges (effective portion)	(42,070)	265
Financial assets at fair value with changes in other comprehensive income	14,802	(13,234)
	(27,268)	(12,969)

As at 31 December 2019 and 2018, the breakdown of deductions and allowances from corporate income tax of the Parent Entity, pending application in future years, is as follows:

	Last year of compensation	2019	2018
Tax loss carry-forwards	2042	526,070	562,354
		526,070	562,354

As at 31 December 2019 and 2018, the breakdown of deductions and allowances from corporate income tax of the Parent Entity pending application in future years, is as follows:

	Last year of use	2019	2018
Deductions for double taxation	2041 to 2048	11,019	10,982
Deductions with joint limit on quota at 35%	2038 to 2048	12,127	12,601
Deductions with joint limit on quota at 70%	2040 to 2048	7,537	5,820
		30,683	29,403

Deductions with the limit over gross tax payable at 70% relate mainly to deductions generated as a result of investments made by the Parent Entity 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 utilization of the amounts shown above, to which end it has capitalized all of the above unused tax credits and unused tax losses as deferred tax assets (Note 32).

(Expressed in thousands of euros)

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

As at 31 December 2019 the Parent Entity’s tax returns for 2015 to 2019 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 2019. 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.

41. Fair value of the consolidated balance sheet assets and liabilities

i) Fair value of financial assets and liabilities.

As indicated in Note 13, the Group's financial assets are recorded in the accompanying consolidated balance sheet at fair value except financial assets at amortised cost. Similarly, the Group's financial liabilities are recorded in the accompanying consolidated balance sheet at their fair value, with the exception of Capital repayable on demand and Financial liabilities at amortized cost, which are not covered by accounting provisions.

The following table summarizes the fair values at the end of 2019 and 2018 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2019	Total Balance	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,745,682	1,745,682	-	-	1,745,682
Financial assets held for trading	47,066	47,066	44,906	2,160	-
Financial assets at fair value with changes in other comprehensive income	1,275,239	1,275,239	1,172,316	-	102,923
Financial assets not intended for trading, which are necessarily valued at fair value	50,883	50,883	37,349	2,210	11,324
Financial assets at amortised cost	20,856,007	21,382,877	6,918,605	-	14,464,272
Derivatives – hedge accounting	106,525	106,525	-	106,525	-
TOTAL FINANCIAL ASSETS	**24,081,402**	**24,608,272**	**8,173,176**	**110,895**	**16,324,201**
Financial liabilities held for trading	1,215	1,215	597	618	-
Financial liabilities at amortised cost	22,181,867	22,181,867	-	-	22,181,867
Derivatives – hedge accounting	255,198	255,198	-	254,680	518
TOTAL FINANCIAL LIABILITIES	**22,438,280**	**22,438,280**	**597**	**255,298**	**22,182,385**

(Expressed in thousands of euros)

2018

	Total Balance	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	1,573,346	1,573,346	-	-	1,573,346
Financial assets held for trading	127,111	127,111	124,203	2,908	-
Financial assets at fair value with changes in other comprehensive income	1,136,015	1,136,015	1,029,578	28,532	77,905
Financial assets not intended for trading, which are necessarily valued at fair value	62,136	62,136	40,557	1,911	19,668
Financial assets at amortised cost	18,998,859	19,124,240	5,593,467	50,364	13,481,409
Derivatives – hedge accounting	148,906	148,906	-	148,906	-
TOTAL FINANCIAL ASSETS	**22,046,373**	**22,171,754**	**6,787,805**	**232,621**	**15,152,328**
Financial liabilities held for trading	1,893	1,893	1,321	572	-
Financial liabilities at amortised cost	20,229,145	20,229,145	-	-	20,229,145
Derivatives – hedge accounting	158,166	158,166	-	157,890	276
TOTAL FINANCIAL LIABILITIES	**20,389,204**	**20,389,204**	**1,321**	**158,462**	**20,229,421**

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 on 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 linked 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 authorized 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 were calculated by external appraisers (Levels 2 and 3).

- Financial assets at amortised cost - 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 referenced to floating rates and/or, if not, they mature within 12 months of the reporting date. Moreover, the impairment provisions for loan losses on this portfolio were calculated in keeping with prevailing applicable regulations and these provisions are deemed sufficient to cover the related credit risk.

  However, in 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.

(Expressed in thousands of euros)

- 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 as at 31 December 2017	**140,314**	**66**
Valuation adjustment recorded in profit and loss account	102,192	210
Valuation adjustment not recorded in profit and loss account	671	-
Purchases, sales and liquidations	(145,604)	-
Net entries / (exits) in Level 3	-	-
Exchange rate and other differences	-	-
Balance as at 31 December 2018	**97,573**	**276**
Valuation adjustment recorded in profit and loss account	1,110	242
Valuation adjustment not recorded in profit and loss account	551	-
Purchases, sales and liquidations	(4,753)	-
Net entries / (exits) in Level 3	-	-
Exchange rate and other differences	-	-
Balance as at 31 December 2019	**94,481**	**518**

During 2019 and 2018, there were no transfers of financial instruments between the different levels of valuation.

(Expressed in thousands of euros)

ii) Fair value of non-financial assets

The comparison as at 31 December 2019 and 2018 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:

	2019		2018	
	Value recorded	Fair value	Value recorded	Fair value
Assets				
Tangible asset:				
For own use and investment properties	330,523	368,437	306,824	351,522
Non-current assets and disposal groups classified as held for sale	172,361	172,361	207,496	207,496
Stocks	68,127	68,127	48,621	48,621

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

- As at 31 December 2019 and 2018 the fair value of the properties included under the headings Tangible fixed assets for own use and Property investments of the Parent Entity, which was calculated based on valuations performed between 2012 and 2019 by independent entities, in line with the rules set out by the Bank of Spain, represented 85% of the book value of these headings. For the rest of the buildings the previous valuations from 2011 (valuations and internal assessments) were updated. In light of the current situation and market expectations, the Entity applied an objectively calculated correction factor on these updated values.

  For all other items of property, plant and equipment, the respective carrying amounts were believed to provide the most reliable estimate of fair value at both year-ends.

- The fair value of non-current assets held for sale which are located in Spain has been estimated taking into account the expected recoverability, applying the parameters set out in Section V of Appendix IX to Bank of Spain Circular 4/2017, and for assets related to real estate development existing as at 31 December 2011, the criteria established in Royal Decree-Law 2/2012, of 3 February. In determining said value, the appraisals conducted by the valuation companies registered with the Bank of Spain have also been utilized, in accordance with MO ECO/805/3002 of 27 March and the current situation in the property market and the economic cycle.

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

42. Financial guarantees

The breakdown of this heading as at 31 December 2019 and 2018 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:

	2019	2018
Financial guarantees	207,193	94,871
	207,193	94,871

(Expressed in thousands of euros)

43. Loan commitments granted and other commitments granted

The breakdown of this heading as at 31 December 2019 and 2018 is as follows:

	2019	2018
Loan commitments granted	959,464	989,896
Available through third parties:	959,464	989,896
Credit institutions	5	168
The Public Administrations sector	144,579	174,702
Other resident sectors	814,816	814,935
Non-residents	64	91
Other commitments granted	304,984	289,202
Purchase of Annotated Debt	-	-
Securities subscribed pending disbursement	26,173	30
Other guarantees and penalties provided	113,854	113,063
Irrevocable documentary credits	11,122	14,429
Other contingent commitments	153,835	161,680
Documents delivered to Clearing Houses	153,835	161,680
	1,264,448	1,279,098

44. Interest income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Financial assets held for trading	710	1,012
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	12,090	11,847
Financial assets at amortised cost	257,712	237,339
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	100	157
Derivatives - hedge accounting, interest rate risk	8,243	22,408
Other assets	16	2,146
Interest income from liabilities	4,224	4,576
	283,095	279,485

The heading “Financial assets at amortised cost” included 109,221 thousand euros in 2019 financial year, corresponding to operations with mortgage guarantee (105,503 thousand euros in 2018).

Most of the interest Income were generated by financial assets of the Parent Entity which are measured at either at amortised cost or fair value through other comprehensive income.

Of the total interest income in the above table as at 31 December 2019 and 2018, most of it has been calculated using the effective interest rate method.

(Expressed in thousands of euros)

The distribution by geographical area of the number of the Group's bank branches as at 31 December 2019 and 2018 was as follows:

	2019	2018
Bizkaia	89	89
Gipuzkoa	66	67
Araba	29	31
Navarra	40	40
New Network	80	82
	304	309

45. Interest expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	53,103	53,251
Derivatives - hedge accounting, interest rate risk	(45,051)	(45,343)
Other liabilities	964	37
Interest expenditure on assets	24,195	25,068
	33,211	33,013

Most of the interest expenses were generated by financial liabilities of the Parent Entity which are measured at amortized cost.

Of the total interest expenditure in the above table as at 31 December 2019 and 2018, most of it has been calculated using the effective interest rate method.

The rectification of expenses owing to hedging operations mainly refers to financial Swaps arranged to hedge the fair value of certain mortgage bond issues (Notes 35 y 27).

46. Dividend income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	5,712	8,208
Financial assets at fair value with changes in other comprehensive income	1,361	3,438
	7,073	11,646

(Expressed in thousands of euros)

47. Profit or loss of entities accounted for using the equity method

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows (Note 28):

	2019	2018
Associated Entities	(9)	(168)
Jointly-controlled entities	-	-
	(9)	(168)

48. Fee and commission income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
For contingent risks	2,936	2,773
For contingent commitments	1,116	1,081
For currency and foreign bank note exchange	99	103
For collection and payment services	50,267	49,945
For securities services:	26,687	25,595
Underwriting and placement of securities	-	-
Purchase-sale of securities	661	839
Administration and custody	1,496	1,494
Asset management	24,530	23,262
For marketing of non-banking financial products:	20,580	19,254
Investment funds	2,450	2,282
Pension funds	16,738	15,675
Insurance	1,392	1,297
Others	-	-
Other fees	14,665	15,356
	116,350	114,107

49. Fee and commission expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Brokerage in asset and liability transactions	37	32
Fees assigned to other correspondent entities:	4,039	4,675
For collection or return of bills of exchange	3	4
For other items	4,036	4,671
Fees paid on securities operations	933	915
With money brokers	858	872
Others	75	43
Other fees	7,208	6,960
	12,217	12,582

(Expressed in thousands of euros)

50. Gains or (-) losses upon derecognition of financial assets and liabilities not valued at fair value through profit or loss, net and for financial assets not intended for trading, obligatorily valued at fair value through profit and loss, net

These headings in the consolidated profit and loss account for the years ended 31 December 2019 and 2018, can be summarised according to the source of the entries therein, as follows:

	2019	2018
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	737	25,834
Financial assets at fair value with changes in other comprehensive income	741	25,834
Financial assets at amortised cost	(4)	-
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	5,230	(3,638)
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	5,230	(3,638)
	5,967	22,196
Profit	13,203	34,955
Loss	(7,236)	(12,759)
	5,967	22,196

Whereas the breakdown, based on the nature of the financial instruments that gave rise to these balances in the years ended 31 December 2019 and 2018, is as follows:

	2019	2018
Debt securities	1,639	25,504
Equity instruments	4,328	(3,308)
Derivatives	-	-
	5,967	22,196

51. Profit or (-) loss on financial assets and liabilities held for trading, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018, according to the origin of the items included in it, is the following:

	2019	2018
Financial assets held for trading	772	69
	772	69
Profit	63,313	96,422
Loss	(62,541)	(96,353)
	772	69

(Expressed in thousands of euros)

Whereas the breakdown, based on the nature of the financial instruments that gave rise to these balances in the years ended 31 December 2019 and 2018, is as follows:

	2019	2018
Debt securities	6,443	13,910
Equity instruments	90	(43)
Derivatives	(5,761)	(13,798)
	772	69

52. Profit or (-) loss on financial assets and liabilities stated at fair value through profit or loss, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Financial assets designated at fair value through profit or loss	-	-
	-	-
Profit	-	-
Loss	-	-
	-	-

53. Profit or (-) loss from hedge accounting, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Hedging derivatives	(259,136)	(55,847)
Hedged items	259,074	39,900
	(62)	(15,947)
Profit	387,305	297,563
Loss	(387,367)	(313,510)
	(62)	(15,947)

The heading "Profit or (-) loss resulting from hedge accounting - Hedging derivatives" includes the value adjustments to the fair value hedging instruments held by the Entity during 2019 and 2018. Also, "Profit or (-) loss from hedge accounting - Hedged items" includes the value adjustments to the items covered by these contracts designated as fair value hedges (see Note 13.e).

(Expressed in thousands of euros)

54. Exchange rate differences [profit or (-) loss], net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Profit	972,722	52,038
Loss	(972,221)	(51,495)
	501	543

55. Other operating income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Sales and income from provision of services	1,638	2,017
Other operating products	12,921	13,101
Financial fees offsetting costs	-	2
Revenues from other operating leases (net) (Note 30)	6,919	5,888
Inventory variations in real estate assets	-	-
Other products	6,002	7,211
	14,559	15,118

56. Other operating expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Contribution to Deposits Guarantee Fund (Note 10)	26,509	24,786
Contribution to National Resolution Fund (Note 10)	3,131	2,852
Mandatory allocation to welfare funds (Notes 4 and 33)	10,332	9,485
Purchases and expenses related to real estate assets	-	-
Other items	4,160	4,200
Changes in stock	-	-
	44,132	41,323

The amounts recorded under the heading “Other operating expenses - Mandatory allocation to welfare funds” in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 totalling 10,332 thousand and 9,485 thousand euros, respectively, relate to the mandatory allocation to the Education and Development Fund in accordance with the Law on Cooperatives and the Entity’s articles of association (Note 4).

In addition, the heading “Other operating expenses– Other” as at 31 December 2019 included the estimated financial contributions for the conversion of deferred tax assets into credit receivable by the Tax Authority amounting to 2,340 thousand euros (2,527 thousand euros in 2018).

(Expressed in thousands of euros)

57. Income from assets covered by insurance or reinsurance contracts

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Revenues from insurance and reinsurance policies issued	189,528	194,780
	189,528	194,780

58. Expenses on liabilities under insurance and reinsurance contracts

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Expenses of insurance and reinsurance contracts issued	133,240	140,171
	133,240	140,171

59. Administration costs

a) Staff costs

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Salaries and bonuses paid to active employees	122,623	120,009
Social security contributions	6,049	5,076
Severance payments	50	637
Staff training costs	764	1,020
Other staff costs	800	956
	130,286	127,698

As at 31 December 2019 and 2018 the Parent Entity records remuneration related to services provided in the course of business, as analysed below:

	2019			2018		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	2	261	259	1	295	294

The average number of employees of the Group in the years 2019 and 2018 distributed by categories is as follows:

	2019	2018
Directors	41	55
Managers	443	438
Specialists	810	810
Administrative personnel	924	968
	2,218	2,271

(Expressed in thousands of euros)

Of the total workforce as at 31 December 2019, 20 people had some degree of recognised disability (19 as at 31 December 2018).

As at 31 December 2019 and 2018, the distribution of the Group's personnel by gender was as follows:

	Number of employees					
	2019			2018		
	Women	Men	Total	Women	Men	Total
Directors	9	32	41	8	47	55
Managers	145	298	443	138	295	433
Specialists	439	371	810	424	376	800
Administrative personnel	563	361	924	581	383	964
	1,156	1,062	2,218	1,151	1,101	2,252
Parent Entity	907	964	1,871	923	1,015	1,938
Other entities:						
Subsidiaries	249	98	347	228	86	314
	1,156	1,062	2,218	1,151	1,101	2,252

The distribution by gender of the members of the Governing Board of the Parent Entity, as at 31 December 2019 and 2018, was as follows:

	Number of members					
	2019			2018		
	Women	Men	Total	Women	Men	Total
Members of the Governing Board	6	6	12	6	6	12

b) Other administrative expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
For buildings, installations and materials:	10,763	15,706
Rentals (Note 31)	664	5,748
Maintenance of fixed assets	6,309	6,392
Lighting, water and heating	2,551	2,283
Forms and office materials	1,239	1,283
IT	8,629	8,896
Communications	4,813	5,504
Advertising and publicity	8,353	8,367
Legal costs and lawyers' fees	2,586	2,588
Technical reports	26,685	32,131
Surveillance and transfer of funds services	1,885	1,880
Insurance and self-insurance premiums	863	1,085
By Governing and Control Bodies	95	145
Staff representation and travel expenses	1,600	1,696
Association charges	304	270
Administrative services subcontracted	6,493	6,699
Rates and taxes	10,026	10,389
Other expenses	5,486	3,987
	88,581	99,343

With the entry into force of IFRS 16 on 1 January 2019 (see Note 2.4), the Group recognised a lease asset and a lease liability of 30,098 thousand and 30,428 thousand euros, respectively, as at 31 December 2019 (see Note 30). As mentioned in Note 2.4, under "Rentals", the Group recognised the cost of leases of less than 12 months and of contracts in which the value of the leased asset was low, the amount of which (not significant) was recorded in the profit and loss account, totalling 672 thousand euros as at 31 December 2019.

(Expressed in thousands of euros)

In 2019, a premium was paid for the collective civil liability insurance of all the directors and executives of the Parent Company, for potential damages caused by incorrect acts committed or supposedly committed in the exercise of the position, for a total amount of 36 thousand euros (35 thousand euros in 2018).

In addition, "Other administrative expenses - Contributions and taxes" included as at 31 December 2019 the Tax on Deposits in Credit Institutions amounting to 6,097 thousand euros (5,694 thousand euros in 2018).

60. Amortisation

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Material asset:	22,002	17,313
Property, plant and equipment	21,170	16,579
For own use	14,803	11,190
Assigned under financial leases	6,367	5,389
Investment properties	832	734
Intangible assets	55	111
	22,057	17,424

61. Provisions or (-) reversal of provisions

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Provisions for pensions and other post-employment defined benefit obligations (Note 37)	(721)	11,290
Provisions for commitments and guarantees given (Note 37)	(315)	(999)
Provisions for pending legal issues and tax litigation (Note 37)	-	-
Other provisions (Note 37)	16,832	11,084
	15,796	21,375

(Expressed in thousands of euros)

62. Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit or loss or (-) net income through modification

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Financial assets with changes in other comprehensive income (Note 24)	(160)	6,636
Debt securities	(160)	6,636
Equity instruments	-	-
Financial assets at amortised cost (*) (Note 25)	(11,231)	5,632
Loans and advances	(11,231)	5,632
Debt securities	-	-
	(11,391)	12,268

(*) Includes recovery of failed assets amounting to 413 thousand euros as at 31 December 2019 (0 thousand euros as at 31 December 2018).

(*) Includes amortisation of insolvencies and recovery of failed assets in 2019 amounting to 2,857 and 5,433 thousand euros, respectively (3,845 and 4,178 thousand euros in fiscal year 2018, respectively).

63. Impairment or (-) reversal of impairment of investments in joint ventures and associates

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Holdings in Associates (Note 28)	-	-
Holdings in Jointly-controlled entities (Note 28)	-	-
	-	-

64. Impairment or (-) reversal of impairment on non-financial assets

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Tangible assets (Note 30)	1,313	(136)
Other assets	-	-
	1,313	(136)

(Expressed in thousands of euros)

65. Profit or (-) loss on derecognition of non-financial assets, net

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Net gains (losses) on the sale of tangible assets	(745)	310
Net gains (losses) on disposal of shareholdings	-	-
	(745)	310

66. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Net gains/(losses) on sale of non-current assets	16,957	49,899
Net provisions for Impairment losses of Non-current assets for sale (Note 34)	(21,158)	(28,099)
	(4,201)	21,800

67. Transactions with Jointly-controlled entities and Associates

The significant balances recorded as at 31 December 2019 and 2018 between the Parent Entity and Subsidiaries and the effect of the transactions between them during the years ended on the same date have been eliminated on consolidation. The summary of the balances as at 31 December 2019 and 2018 relating to assets and liabilities held with jointly controlled entities and associates is as follows:

	2019	2018
Balances		
Customer deposits	119	-
Non-current assets for sale	-	-
Guarantees	-	-
Loans and advances	667	-

The most significant transactions carried out in 2019 and 2018 with Jointly-controlled entities and Associates are as follows:

	2019	2018
Interest and similar charges	-	-
Fees collected	-	-
Interest and similar income	-	-

68. Other information

A breakdown of customer funds off the Group's consolidated balance sheet as at 31 December 2019 and 2018 is as follows:

(Expressed in thousands of euros)

	2019	2018
Managed by the Entity's Group:	4,785,775	4,399,165
Investment Funds and companies	2,638,523	2,358,225
Pension funds and EPSVs	1,747,861	1,635,791
Insurance contract saving	399,391	405,149
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	1,088,330	921,746
	5,874,105	5,320,911

As at 31 December 2019, the balance of deposits of securities owned by third parties amounted to 5,231,108 thousand euros (4,854,781 thousand euros as at 31 December 2018).

Total debt securities assigned by the Group as at 31 December 2019 and 2018 amounted to 1,588,657 thousand and 875,873 thousand euros, respectively, which had been assigned to third parties and recognised mainly under the heading of "Financial liabilities at amortised cost - Customer deposits" on the balance sheet.

69. Information of issuers on the mortgage market and on the special accounting register

As indicated in Note 35, the Parent Entity issued mortgage bonds, so that we include hereinafter the information on the data from the special accounting register of the issuing entity, referred to in Article 21 of Royal Decree 716/2009, of 24 April, by virtue of what is set out in Circular 7/2010, to credit entities, which develops certain aspects of the mortgage market and with a disclosure level established in Circular 5/2011, of 30 November, from the Bank of Spain.

Also, in accordance with the provisions of Royal Decree 716/2009, dated 24 April, which develops certain aspects of Law 2/1981, dated 25 March, regulating the mortgage market and other rules of the financial mortgage system, the Board of Directors of the Parent Entity states that, as at 31 December 2019, the Parent Entity has a set of policies and procedures to guarantee compliance with the regulations governing the mortgage market.

These policies and procedures include, among others, 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 and Ratings) are a fundamental element.

The principal mitigating factors admitted are the mortgage guarantee, with particular emphasis on the LTV ratio of the operation and the guarantors.

These models, based upon the data introduced and on the historic behaviour of certain variables, are capable of estimating the probability of payment default and therefore of assigning 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 equity or indebtedness, the payment behaviour, the degree of links and personal aspects of the borrower and certain characteristics of the risk operation.

Specifically, the current models consider the following types of variables: the personal characteristics, payment default history, the capacity to obtain income or earnings, debt profile, net patrimony, links with the entity, the characteristics of the operation itself and the hedging of the operation (mitigating factors).

(Expressed in thousands of euros)

Moreover, there are also procedures to check the information incorporated into the system covering the data introduced, especially those related to income, equity, the mortgage guarantee through a valuation of the property, the use of the financing, the general data on the client and the behaviour bases of the client.

To determine the value of the real estate assets being used as a mortgage guarantee in the risk operation, the valuations being employed must meet the following conditions:

- Be performed by a valuation company registered in the Official Registry of Valuation in the Bank of Spain.
- That the content of Ministerial Order OM ECO/805/2003 of 27 March is applied

The value of these assets is revised with a determined frequency, which varies depending on the classification of the operation they are guaranteeing, the amount and the LTV ratio, and various policies are established for operations classified as problematic (doubtful or foreclosed) and those classified as normal or under special surveillance.

a) Asset operations

The nominal value of the whole mortgage loans and credits portfolio pending as at 31 December 2019 and 2018 amounted to 9,983 million euros and 10,116 million euros, 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) amounted to 7,554 and 7,471 million euros, 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 the content of the rules applicable for the purpose of issuing mortgage bonds and securities:

	Thousands of euros	
	2019	2018
	Nominal value	Nominal value
Total loans (a)	**10,479,567**	**10,666,060**
Mortgage shares issued	**-**	**-**
Of which: loans recognised in assets	-	-
Mortgage transfer certificates issued	**496,763**	**550,339**
Of which: loans recognised in assets	496,763	550,339
Mortgage loans securing financing received	**-**	**-**
Loans supporting the issuance of mortgage bonds and covered bonds	**9,982,804**	**10,115,721**
Non-eligible loans (b)	2,429,264	2,644,266
They fulfil requirements to be eligible, except the limit stipulated in Article 5,1 of RD 716/2009	1,570,595	1,717,776
Other non-eligible loans	858,669	926,490
Eligible loans (c)	7,553,540	7,471,455
Loans hedging mortgage bond issues	-	-
Loans eligible for hedging of Mortgage Bond issues	7,553,540	7,471,455
Non-computable amounts (d)	7,963	7,042
Computable amounts	7,545,577	7,464,413

(a) Principal drawn down pending collection on loans guaranteed by mortgages in favour of the entity (including those acquired through mortgage shares and mortgage transfer certificates), even if they have been removed from the balance sheet, whatever percentage this amount represents of the amount of the last valuation *(loan to value)*.

(b) Loans with mortgage guarantee not transferred to third parties or subject to financing received that do not meet the requirements of article 3 of Royal Decree 716/2009 for being eligible for the issue of mortgage bonds or mortgage securities.

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

(d) Value of eligible loans which, in accordance with the criteria set out in Article 12 of Royal Decree 716/2009, are not eligible for hedging the issue of mortgage bonds and mortgage certificates.

The following table shows a breakdown of the mortgage loans and credits according to the various attributes of these amounts as at 31 December 2019 and 2018:

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019
(Expressed in thousands of euros)

	Thousands of euros			
	2019		2018	
	Loans securing the issue of mortgage bonds and mortgage certificates (a)	*Of which:* Eligible loans (b)	Loans securing the issue of mortgage bonds and mortgage certificates (a)	*Of which:* Eligible loans (b)
TOTAL	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
1 ORIGIN OF THE OPERATIONS	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
1.1 Originated by the entity	9,920,419	7,507,099	10,046,551	7,421,395
1.2 Subrogated from other entities	62,385	46,441	69,170	50,060
1.3 Rest	-	-	-	-
2 CURRENCY	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
2.1 Euro	9,982,804	7,553,540	10,115,721	7,471,455
2.2 Other currencies	-	-	-	-
3 PAYMENT SITUATION	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
3.1 Payment normality	9,551,107	7,392,619	9,604,415	7,295,144
3.2 Other situations	431,697	160,921	511,306	176,311
4 AVERAGE RESIDUAL MATURITY	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
4.1 Up to ten years	4,412,340	3,106,579	4,475,430	3,070,373
4.2 Over ten years up to twenty years	5,569,386	4,446,532	5,638,056	4,399,958
4.3 Over twenty years up to thirty years	1,078	429	2,235	1,124
4.4 More than thirty years	-	-	-	-
5 INTEREST RATES	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
5.1 Fixed	672,310	499,151	452,251	278,467
5.2 Variable	-	-	-	-
5.3 Mixed	9,310,494	7,054,389	9,663,470	7,192,988
6 OWNERS	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
6.1 Legal entities and individual entrepreneurs (business activities)	928,034	1,273	1,036,047	1,470
Of which: Construction and real estate development	55,745	-	91,714	
6.2 Other homes	9,054,770	7,552,267	9,079,674	7,469,985
7 TYPE OF GUARANTEE	**9,982,804**	**7,553,540**	**10,115,721**	**7,471,455**
7.1 Assets/finished buildings	9,930,468	7,543,947	10,044,381	7,461,367
7.1.1 Homes	9,401,891	7,526,034	9,473,650	7,441,848
Of which: Social housing	1,127,850	785,122	1,117,874	794,408
7.1.2 Offices and commercial premises	298,558	15,004	321,396	16,139
7.1.3 Other buildings and constructions	230,019	2,909	249,335	3,380
7.2 Assets/Buildings under construction	3,381	-	7,257	-
7.2.1 Homes	1,776	-	5,357	-
Of which: Social housing	-	-	-	-
7.2.2 Offices and commercial premises	1,605	-	1,900	-
7.2.3 Other buildings and constructions	-	-	-	-
7.3 Land	48,955	9,593	64,083	10,088
7.3.1 Urban land	26,544	5,090	28,250	5,097
7.3.2 Other land	22,411	4,503	35,833	4,991

(a) Principal drawn down pending collection for loans secured by a mortgage, regardless of the percentage that this amount represents of the amount of the last appraisal (loan to value), not transferred to third parties or assigned to financing received.

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

The amount that, in line with the criteria set in article 12 of the above mentioned Royal Decree, is computable to allow hedging on the issue of mortgage bonds, as at 31 December 2019 and 2018, amounted to 7,546 million and 7,464 million euros, respectively.

In relation to the nominal and updated values, calculated in accordance with the provisions of article 23 of the above mentioned Royal Decree, the Parent Entity has not issued any mortgage bonds as at 31st December 2019 or 2018, and the nominal value of the mortgage loans and credits that, still appearing in the portfolio, have been mobilised through mortgage shares or mortgage transfer certificates, as at 31st December 2019 and 2018, amounted to 497 and 550 million euros, respectively.

(Expressed in thousands of euros)

The nominal value of all non-eligible loans and mortgage loans totalled 2,429 million euros as at 31 December 2019 (2,645 million as at 31 December 2018); of which those not eligible because of not fulfilling the limits stipulated in Article 5.1 of Royal Decree 716/2009 but which fulfil the other eligibility requirements (stated in Article 4 of the Royal Decree) totalled 859 and 1,718 million euros at the 2019 and 2018 year-ends, 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, as at 31 December 2019 and 2018, is as follows:

As at 31 December 2019

	Thousands of euros					
	Principal drawn down with regard to the last available valuation amount (*loan to value*) (b)					
	2019					
	Less than or equal to 40%	**Greater than 40% and less than or equal to 60%**	**Greater than 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or certificates (a)	**2,426,211**	**2,713,017**	**7,686**	**2,406,626**	**-**	**7,553,540**
- On homes	2,406,907	2,701,189	-	2,406,626	-	7,514,722
- On others	19,304	11,828	7,686	-	-	38,818

As at 31 December 2018

	Thousands of euros					
	Principal drawn down with regard to the last available valuation amount (*loan to value*) (b)					
	2018					
	Less than or equal to 40%	**Greater than 40% and less than or equal to 60%**	**Greater than 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80%**	**TOTAL**
Loans eligible for the issue of mortgage bonds or certificates (a)	**2,406,228**	**2,714,414**	**9,091**	**2,341,722**	**-**	**7,471,455**
- On homes	2,387,714	2,700,000	-	2,341,722	-	7,429,436
- On others	18,514	14,414	9,091	-	-	42,019

(a) Loans eligible for the issue of mortgage bonds and certificates, 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 ratio is the ratio resulting from dividing the principal drawn on each transaction by the amount of the last available valuation of the collateral.

(Expressed in thousands of euros)

The movements in the nominal values of the mortgage loans and credits that support the issue of mortgage bonds or certificates (eligible or non-eligible) in the years 2019 and 2018 are as follows:

	Thousands of euros	
	Eligible loans (a)	Non-eligible loans (b)
1 Opening balance 2018	7,300,873	3,010,861
2 Derecognised during the year	906,385	1,088,368
2.1 Principal due, collected in cash	16,426	14,561
2.2 Early cancellations	135,053	101,210
2.3 Subrogation of other entities	1,120	463
2.4 Other	753,786	972,134
3 Additions during the year	1,076,967	721,773
3.1 Originated by the entity	1,058,371	703,740
3.2 Subrogation of other entities	6,191	2,774
3.3 Others	12,405	15,259
4 Closing balance 2018	7,471,455	2,644,266
1 Opening balance 2019	7,471,455	2,644,266
2 Derecognised during the year	760,261	774,097
2.1 Principal due, collected in cash	16,042	78,169
2.2 Early cancellations	152,554	109,162
2.3 Subrogation of other entities	1,012	219
2.4 Other	590,653	586,547
3 Additions during the year	842,345	559,095
3.1 Originated by the entity	833,606	534,311
3.2 Subrogation of other entities	3,251	2,595
3.3 Others	5,488	22,189
4 Closing balance 2019	7,553,539	2,429,264

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

(b) Loans with mortgage guarantee not transferred to third parties or subject to financing received that do not meet the requirements of article 3 of Royal Decree 716/2009 for being eligible for the issue of mortgage bonds or mortgage securities.

The balances available of mortgage loans and credits that support the issue of Mortgage bonds and certificates as at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
	Principals available (a)	Principals available (a)
Mortgage loans that back the issue of mortgage bonds and certificates	**32,610**	**32,232**
- Potentially eligible (b)	-	-
- Non-eligible	32,610	32,232

(a) Amounts committed (limit) less the amounts used in all loans with a mortgage guarantee, whatever their percentage of total risk may be, against the latest valuation (loan to value) not transferred to third parties nor affected by 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 certificates, in line with article 3 of Royal Decree 716/2009

(Expressed in thousands of euros)

As at 31 December 2019 and 2018, the Parent Entity had 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, at those dates, over the total of eligible assets to support those issues were 15.89% and 18.40%, respectively, compared to the maximum of 80% established in Article 16 of Law 2/1981, of 25 March, on the Regulation of the Mortgage Market.

b) Liability operations

Below is a breakdown of the issues made and collaterised from the Parent Company's mortgage loan and credit portfolio, as at 31st December 2019 and 2018.

	Thousands of euros			
	2019		2018	
Mortgage securities	**Nominal value**	**Average residual maturity (in months)**	**Nominal value**	**Average residual maturity (in months)**
1 Mortgage bonds issued	**-**		**-**	
2 Mortgage certificates issued	**1,200,000**		**1,375,000**	
Of which: registered in liabilities	1,125,000		1,225,000	
2.1 Debt securities. Issued through public offer	75,000		150,000	
2.1.1 Residual maturity up to one year	75,000		75,000	
2.1.2 Residual maturity greater than one year and up to two years	-		75,000	
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	-		-	
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 Debt securities. 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	1,125,000		1,225,000	
2.3.1 Residual maturity up to one year	500,000		100,000	
2.3.2 Residual maturity greater than one year and up to two years	625,000		500,000	
2.3.3 Residual maturity greater than two years and up to three years	-		625,000	
2.3.4 Residual maturity greater than three and up to five years	-		-	
2.3.5 Residual maturity greater than five years and up to ten years	-		-	
2.3.6 Residual maturity greater than ten years	-		-	
3 Mortgage shares issued (b)	**-**		**-**	
3.1 Issued through public offer	-		-	
3.2 Other issues	-		-	
4 Mortgage transfer certificates issued (b)	**496,763**	**220**	**550,340**	**228**
4.1 Issued through public offer	-	-	-	-
4.2 Other issues	496,763	220	550,340	228

(a) The mortgage certificates 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) Amount of mortgage securities and mortgage transfer certificates issued corresponding exclusively to mortgage loans and credits recorded on the assets side (held on the balance sheet).

(Expressed in thousands of euros)

70. Information on the average supplier payment period. Third Additional Provision. Disclosure requirement Law 15/2010, 5 July

In accordance with Law 31/2014 of 3 December on the improvement of corporate governance which amended Additional Provision Three of Law 15/2010 of 5 July on the amendment of Law 3/2004 of 29 December, which implemented measures to combat late payment in business transactions, and considering the Single Additional Provision of the Resolution of 29 January 2016 by the Institute of Accountants and Auditors, for the purpose of complying with the relevant disclosure requirements, information on the average supplier payment period during 2019 and 2018 is set out below:

	Days	
	2019	**2018**
Average supplier payment period	19	19
Paid transaction ratio	19	19
Transactions pending payment ratio	23	19

	Amount (thousands of euros))	
	2019	**2018**
Total payments made	273,773	245,614
Total payments outstanding	10,289	10,405

71. Business combinations and the acquisition of participation in subsidiary, Jointly-controlled and Associated Entities

a) Information on acquisitions of equity in subsidiary, Jointly-controlled and Associated Entities

In 2019 and 2018 there were no acquisitions in the share capital of Subsidiary, Jointly Controlled and Associated Entities of any significance for the Group.

b) Business combinations

During 2019 and 2018, there were no business combinations of relevance to the Group.

ANNEX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL DETAILS OF HOLDINGS IN GROUP COMPANIES AND OTHER HOLDINGS AS AT 31 DECEMBER 2019
(Expressed in thousands of euros)

			2019								
			% Holding		Book value			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Service revenues/ Sales	Net profit (loss)
Subsidiaries											
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	34,507	-	34,507	566,841	80,605	54,111	2,639
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	237,943	61,843	94,836	6,887
Seguros Lagun-Aro 2003, A.I.E.	Bilbao	Provision of services	-	100%	-	-	-	4,322	2,792	-	-
Caja Laboral Gestión, S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,280	-	6,280	14,703	9,552	20,475	1,663
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,530	2,815	3,044	166
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	70,403	62,543	6,547	6,531
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	Bilbao	Banking Insurance Operator	100%	-	10	-	10	14,425	5,032	41,400	2,643
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Property Asset Manager	100%	-	4,970	(4,000)	970	7,323	6,882	444	(75)
ISGA Inmuebles, S.A.	Mondragón	Property Asset Manager	100%	-	108,248	(66,375)	41,873	183,065	150,013	44,841	(14,277)
					233,837	(70,375)	163,462				

			2019								
			% Holding		Book value			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairme nt	Net	Assets	Equity	Service revenues/ Sales	Net profit (loss)
Associated Entities											
Ategi Green Power, S.L.	Mondragón	Energy production	28.57%	-	333	-	333	3,602	1,137	-	(30)
					333	-	333				

(*) The accompanying financial information corresponds to the standardised financial statements of the investees, as at 31 December 2019.

This appendix forms an integrated part of Note 28 to the individual annual accounts and both should be read together.

ANNEX I

CAJA LABORAL POPULAR COOP. DE CRÉDITO

INDIVIDUAL DETAILS OF HOLDINGS IN GROUP COMPANIES AND OTHER HOLDINGS AS AT 31 December 2018
(Expressed in thousands of euros)

			2018								
			% Holding		Book value			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Service revenues/ Sales	Net profit (loss)
Subsidiaries											
Seguros Lagun-Aro Vida, S.A. (a)	Bilbao	Insurance	76%	24%	25,943	-	25,943	547,346	64,825	56,608	3,021
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	226,467	65,493	93,375	7,062
Seguros Lagun-Aro 2003, A.I.E.	Bilbao	Provision of services	-	100%	-	-	-	3,854	2,792	-	-
Caja Laboral Gestión, S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,281	-	6,281	13,656	8,888	19,096	1,352
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,303	2,650	2,974	44
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	61,166	61,162	-	(15)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	Bilbao	Banking Insurance Operator	100%	-	10	-	10	13,089	4,180	39,758	1,790
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Property Asset Manager	100%	-	4,968	(4,000)	968	7,751	7,330	1,672	836
ISGA Inmuebles, S.A.	Mondragón	Property Asset Manager	100%	-	88,914	(60,840)	28,074	191,038	157,116	95,253	6,569
					205,938	(64,840)	141,098				

			2018								
			% Holding		Book value			Investee data (*)			
Company	Address	Activity	Direct	Indirect	Gross	Impairment	Net	Assets	Equity	Service revenues/ Sales	Net profit (loss)
Associated Entities											
ICR Institutional Investment Management SGIIC, S.A.	Madrid	Investment fund manager	21.43%	-	30	-	30	795	201	989	(783)
					30	-	30				

(a) As at 31 December 2018 the Entity has an uncalled share capital, for the share holdings in Seguros Lagun-Aro Vida, S.A. amounting to 8,585 thousand euros.
(*) The accompanying financial information corresponds to the standardised financial statements of the investees, as at 31 December 2018.

This appendix forms an integrated part of Note 28 to the individual annual accounts and both should be read together.

ANNEX II

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AS AT 31 DECEMBER 2019 AND 2018

Name	Address	ID Code	Date of granting of powers	Date of finalisation of mandate	Geographical scope	Scope of representation
Caja Laboral Banca Seguros O.B.S.V., S.L.U.	Gran Vía Don Diego López de Haro, 2- Bilbao	B 75060988	01/01/2013	Indefinite	National	- Handle operations involving current accounts, savings accounts, term deposits, investment funds, pension plans and welfare plans, signing all necessary documents. - Processing of 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

IMPACT OF THE FIRST APPLICATION OF IFRS 9

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

Classification and measurement of financial instruments

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

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

Reconciliation of impairment value adjustments from IAS 39 to IFRS 9

The following table shows a reconciliation between IAS 39 as at 31 December 2017 and IFRS 9 as at 1 January 2018, of the impairment value adjustments for financial instruments in accordance with the new requirements of IFRS 9 (once the portfolios have been reclassified):

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

Balance Sheet Reconciliation from NIC 39 to NIIF 9

Below are the details of the reconciliation of the consolidated balance sheet under IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018, distinguishing between the impacts by classification and measurement and by impairment after the adoption of IFRS 9 (only the headings that have been modified in the consolidated balance sheet are included):

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

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

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

b) The instruments classified under "Investments held to maturity" as at 31 December 2017, were reclassified to "Financial Assets at Amortised Cost" as a result of the change in the name of this portfolio due to the entry into force of IFRS 9.

c) Equity instruments classified under the heading "Available-for-sale financial assets" as at 31 December 2017 were reclassified to the heading "Financial assets at fair value through profit or loss" (due to changes in the name under IFRS 9), with the exception of certain securities, the purpose of which does not comply with the SPPI test, mainly investment and venture capital fund shares, which are reclassified to the heading "Non-trading financial assets necessarily measured at fair value through profit or loss". Latent gross capital gains of 13,176 thousand euros have been reclassified to reserves due to the reclassification of such assets that have not complied with the SPPI test.

d) After reviewing the business models of the portfolios, the Group has identified several sub-portfolios of debt instruments that totalled a fair value of 3,877,967 thousand euros as at 31 December 2017 under "Available-for-Sale Financial Assets", with a management that will be geared towards maintaining the financial instruments in the portfolio until maturity, and therefore they have been reclassified to "Financial Assets at Amortised Cost - Debt securities". All the assets included in the aforementioned sub-portfolios meet the SPPI Test. The aforementioned reclassification has led to the derecognition of gross latent capital gains amounting to 95,903 thousand euros (after deducting the micro-hedging adjustments associated with the items covered), once they are valued at amortised cost. Also, the other debt instruments recognised in the "Available-for-Sale Financial Assets" portfolio as at 31 December 2017 were reclassified to "Financial Assets at Fair Value through Other Comprehensive Income" as a result of the change of name from IFRS 9, except for a reference with a market value of 8,988 thousand euros which did not comply with the SPPI test and was therefore reclassified to "Non-Trading Financial Assets necessarily measured at fair value through profit or loss". The gross capital losses of this last asset, amounting to 1,012 thousand euros, have been reclassified to reserves (net of tax).

e) Corresponds to the increase in provisions for impairment of the value of the assets included in the "Financial assets at amortised cost" heading, resulting from the change in accounting policy.

f) Corresponds to the impact of the change in methodology for registering credit commissions.

g) Corresponds to the decrease in impairment of the assets included in the "Non-current assets and disposable groups classified as held for sale" heading, valued at 219 thousand euros.

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

i) Certain fixed income and equity securities contributed by the Group's insurance business, classified, as at 31 December 2017, under the heading "Financial assets designated at fair value with changes in profit and loss", have been reclassified to the heading "Non-trading financial assets necessarily valued at fair value with changes in profit and loss" in order to maintain a portfolio management model in line with the Parent Entity. This reclassification has had no impact on "Reserves" or "Other accumulated comprehensive income".

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

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

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

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

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

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

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

c) Impact of the reclassification of unrealised capital gains of investment funds and venture capital funds (Assets that do not meet the SPPI Test) from other comprehensive income to accumulated reserves.

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

The following are the aggregate impacts in the accounting figures:

	Millions of euros
Net impact on balance sheet	**(81.2)**
Increase in value adjustments for impairment	(10.1)
Decrease in value adjustments for impairment of foreclosed assets	0.2
Recording of unallocated income from credit fees	(7.0)
Reclassifications of investment portfolios	(95.9)
Deferred taxes associated with the impacts	31.6
Impact on equity (decrease)	**(81.2)**
Impact on valuation adjustments (decrease)	(77.8)
Impact on reserves (decrease)	(3.4)

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

The fair value as at 31 December 2018 and 2017 of the financial assets reclassified from the heading "Available-for-sale financial assets" to the heading "Financial assets at amortised cost" (excluding certain references that have been amortised during 2018), amounts to 3,154 and 3,051 million euros, respectively. The impact on "Accumulated Other Comprehensive Income" that the reclassified securities would have had, would have amounted to 74 million euros, net of the tax effect.

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

ANNUAL BANKING REPORT

Information on 31 December 2019 of the Laboral Kutxa Group for compliance with Law 10/2014 and Directive 2013/36/EU of the European Parliament and Council

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 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 tax.

e) Tax on profit.

f) Grants or public aid received.

In accordance with this, the required information mentioned above is detailed as follows:

a) Name, nature and geographical location of the activity

Caja Laboral Popular Coop. de Crédito (hereinafter the Parent Entity, Laboral Kutxa or Caja Laboral), with registered office in Mondragón (Gipuzkoa), was formed on 2 November 2012 as a new credit cooperative as a result of the merger, through the formation of a new entity, between Caja Laboral Popular Coop. de Crédito and Ipar Kutxa Rural, S.Coop. de Crédito. This entity is a qualified cooperative.

The Articles of Association 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 members and third parties by carrying out the activities typical of a credit institution. To this end, it may carry out all kinds of lending, borrowing and servicing operations which financial institutions are permitted to provide, including those relating to the promotion and fulfilment of its cooperative purpose, paying particular attention to its members' financial needs and complying with the legal limits on lending to third parties.

Appendix I to these Consolidated Annual Accounts of the Laboral Kutxa Group for the year ended 31 December 2019, 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 tax and corporate income tax

	Business Volume (000 Euros)	No. equivalent full time employees	Gross profit before tax	Tax on profit
Spain	394,974	2,098	143,386	16,022
TOTAL	**394,974**	**2,098**	**143,386**	**16,022**

For the purposes of this information, “business volume” is considered to be the gross margin disclosed on the consolidated profit and loss account for December 2019. The data for equivalent full time employees has been obtained from information on the workforce of each company/country at the end of 2019.

The return on the Group's assets, calculated as net profits attributed to the Parent Entity divided by total assets, as at 31 December 2019, stood at 0.51%.

c) Grants or public aid received

Grants and public aid received by the Laboral Kutxa Group during 2019 were not significant.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED DIRECTORS' REPORT FOR 2019

The circumstances surrounding the global economy are not simple. 2019 ended with a greater downturn than most analysts foresaw a year ago. At the beginning of the year, global growth expectations were at a rate of 2.9% and the value could possibly fall to 2.5% with different incidence depending on the economic region.

The stock market adjustment in the second half of 2018 and interest rate hikes by the Federal Reserve put a strain on financial conditions. If we add to this the reduction of fiscal stimuli in the US and the intensification of the trade war between the US and China in the first half of the year, we can understand why 2019 has performed worse than expected.

With regard to Europe, the departure of the United Kingdom from the EU has created a high degree of uncertainty during the first half of this year for the continent's economy, which is also suffering from other problems that, like the change in the emissions regime, have weakened the German locomotive. Following the above, it is easy to understand the change in the orientation of the central banks' monetary policy by lowering interest rates throughout the year.

With regard to the geographical area of the Laboral Kutxa Group, the Basque and Spanish economies have been experiencing a long cycle of growth and, despite the fact that the slowdown has brought growth rates of around 3% to 2%, the rate continues to be much higher than that of the surrounding countries and allows for an improvement in the magnitudes of the labour market.

With a view to 2020, some additional adjustment in tenths of a percent of growth with respect to the current course is to be expected and, in the end, everything will depend on the adequate resolution of the binomial trade war - Brexit. Thus, the forecasts point to rates of 1.6%, 1.8% and 2.2% respectively for Spain, the Autonomous Community of the Basque Country and the Autonomous Community of Navarre. These growth rates will allow the average unemployment rates for 2019 to be around 13.1%, 9.1% and 7.5% respectively in each of the aforementioned geographical areas. And all this in an environment of price growth of approximately 1%, which does not suggest any major changes in terms of monetary policy.

The ECB ended 2018 by ending net purchases of assets in the market and confirming its willingness to raise rates in September or October 2019. However, due to the greater than expected slowdown, in September 2019 it agreed to introduce a package of measures with an accommodating bias, approving among others a 10 b.p. reduction in the deposit facility rate to -0.50% and accompanied by a tiering system through which it is permitted to maintain at 0% up to six times the level of the minimum reserve requirement.

In terms of profitability, the expected interest rate scenario, together with the signs of exhaustion of the current expansive economic cycle, will once again affect margins and make it difficult to compensate for the narrowing of margins with more business volume. Therefore, control of costs through greater adjustment of installed capacity and the evolution of provisions will largely determine the income levels, which will hardly improve the current 5% average ROE.

Solvency will be marked by the entry into force of the MREL requirement, which will require higher levels of equity and/or liabilities with the capacity to absorb losses, in a sector that at the state level presents adjusted levels of solvency.

As for non-performing loans, the sector is expected to close 2019 with a rate of around 5%, approaching 4.7% at the end of 2020 (in 2017 it was 7.9%). In this positive evolution, the sales of portfolios that have taken place in recent years are particularly noteworthy. In any case a worsening of the economic cycle could directly translate into higher rates.

The sector is undertaking significant investments to adapt to the demands of digitalisation, without generating greater profitability through access to new customers or sources of income, although the improvements in efficiency resulting from the transfer of operations from the commercial network to other channels are noticeable. In this environment, the entry into force of the new PSD2 payment regulation is a new threat due to the emergence of new participants in a profitable business, which in turn enables contact to be maintained with the customer's operations.

In this context, the Laboral Kutxa Group has managed to maintain its profitability despite the adverse rate scenario, thanks to a containing expenditure policy and to its high quality loan portfolio, reinforcing its high level of solvency.

The key figures of the business are set out below:

Total assets amounted to 25.058,4 million euros, a 9% increase on the previous year's figure.

Customer deposits amounted to 21,425.1 million euros, 9.98% more than at the end of 2018, mainly due to the increase of 1,330 million euros in demand deposits, 9.30%, due in part to the transfer of funds from time deposits, which reduced their balance by 279.8 million euros.

Loans and advances to customers totalled 13,973.1 million euros at the 2019 year-end. Excluding the effect of the variation in other financial assets, traditional lending increased by 3.83%, driven by the significant increase in financing to public administrations.

The number of doubtful risk loans to customers fell 17.17% and the non-performing loans ratio under the heading "Other resident sectors" fell to 3.73% at the end of 2019, which is significantly lower than the sector average, which for deposit institutions stands at 4,78%.

Financial assets at fair value with changes in other comprehensive income and debt securities at amortised cost amounted to 1,275.2 million and 6,412.6 million euros, respectively, with the portfolio at amortised cost representing 25.6% of the balance sheet total.

Productivity and liquidity indicators continue at sufficient levels in both absolute and relative terms. The efficiency ratio, measured as administration costs/gross margin pre-FEPC, stood at 54% in 2019 and the structural liquidity ratio, calculated in terms of loans/deposits, stood at 70.1%.

With regard to the level of solvency, the Group's computable capital as at 31 December 2019 amounted to 1,731.6 million euros. The CET1 (Common Equity Tier 1) ratio is 20.17%, one of the best in the sector and the total solvency ratio stands at 18.76%.

On the profit and loss account, the following income and expense items should be noted:

Profits net of taxes amounted to 127.4 million euros in 2019, with profit reaching 137.7 million prior mandatory allocation to welfare projects, exceeding the forecast in the Group Management Plan.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED DIRECTORS' REPORT FOR 2019

Despite an environment of interest rates as low as the current one, which has a direct influence on the first margins, income from interest rose to 249.9 million euros.

The sum of the items of dividends, net fees and commissions, the profits obtained from the revaluation and disposal of the financial instrument portfolios, together with other operating income and the derivatives from the insurance business, contributed an amount of 145.1 million euros in 2019, bringing gross income to 395 million euros.

In terms of costs, the Group continued its policy of containment and rationalisation of costs, which has led to a 3.60% reduction in administrative expenses, which stand at 218.9 million euros.

The effect of impairment losses on income, together with provision allocations and income from non-current assets held for sale, amounted to 9.9 million, with an increase in provisions for foreclosed assets, offset by lower credit investment provisioning requirements. In this respect, the Group has maintained its traditional valuation policy.

Details of the Group's main risks are included in Notes 15 to 21 of the 2019 annual accounts.

The insurance business has provided the Laboral Kutxa Group with overall income of 39.5 million euros, as a result of the significant increase in the sale of new policies, a low accident rate and efficient cost management.

In the real estate sector, the process of reducing risk positions continued in 2019 with the real estate development and construction business falling by 69.7 million euros to 733.1 million euros at the end of the year, with associated hedges of approximately 67% of this balance.

Continuing the trend of the last few financial years, the low interest rates will once again ballast the profitability levels of the credit institutions in 2020. Therefore, the lower need for provisions due to the reduction in non-performing loans, such as cost reduction policies and the appropriate management of non-performing assets, will be key.

In this scenario for the coming year, the entity expects a decrease in interest income as a result of the interest rate scenario and the greater need for resources for the development of the projects identified in the strategic plan that will enable the entity to evolve will be largely counterbalanced by the contribution expected from the real estate and insurance business activities. It therefore expects to obtain an after-tax benefit in line with that obtained in 2019.

In terms of business volumes and regarding assets, the evolution of the new formalisations of risk balances will lead to an increase of more than one percentage point in the gross loan portfolio, with increases in all segments.

On the liabilities side, growth is foreseeable, since the reduction in forward and off-balance sheet positions will be more than compensated for by the increase in current account balances.

The volume of doubtful risk will continue to fall due to the decrease in new NPLs, which will lead to a further reduction in the doubtful ratio at the end of next year.

In a market environment dominated by zero and negative interest rates, and the difficulties of making the profit and loss account profitable and, after the strategic deliberations carried out during the 2019 financial year, 2020 will be the year in which progress will begin to be made and the milestones foreseen in the strategic plan will be reached, under the 2 basic pillars defined: Optimisation of the core business with the aim of maximising profitable growth while preserving the corporate model, levels of solvency and the current financial situation; and the transformation of the Laboral Kutxa Group into a group with more tools, business models and capacities that enable it to continue competing in a more complex and demanding market environment.

The average payment time to suppliers during 2019 was 19 days, below the maximum legal period of 30 days established in Law 15/2010, dated 5 July, which sets out measures to combat late payment in commercial transactions, amended by Law 31/,dated 3 December, which amends the Law on Capital Companies to improve corporate governance, and taking into account the Single Additional Provision of the Resolution, dated 29 January 2016, by the Institute of Accountants and Auditors. The average payment period has been calculated in accordance with said law.

Law 11/2018, dated 28 December, on non-financial information and diversity regulates the disclosure of information regarding these two aspects. Caja Laboral, as a public interest entity, has published in an additional document, which forms part of the Management Report, the Statement of Non-Financial Information relating to the Caja Laboral Group that responds to the obligations contained in the above-mentioned regulations.

In addition, both Laboral Kutxa and the two insurance companies that make up Seguros Lagun Aro publish annual Corporate Responsibility Reports, in accordance with international standards, which can be used to provide more detailed information on these matters.

In accordance with applicable legislation, the Directors' Report and the Annual Corporate Governance Report of Caja Laboral Popular are attached in the following Appendix.

CSR

SUSTAINABILITY REPORT AND NON-FINANCIAL INFORMATION STATEMENT **2019**

LABORAL Kutxa declares that this Report has been prepared in accordance with the GRI standards: the exhaustive option, and complies with the requirements of Law 11/2018, dated 28 December, on non-financial information and diversity, according to the external verification carried out y AENOR.

LABORAL kutxa

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LETTER

2019 has been brought to a close, a very special year for the people of LABORAL Kutxa as we celebrated our first 60 years of existence. It was a year in which, looking back, we were able to remember the reason and the purpose for which this cooperative project was created, as well as the path we have travelled to get here. But it has also been a year in which we have looked to the future. Taking all of this into account, we have undertaken a strategic deliberation to analyse the challenges that we will face in the coming years. These are demanding and exciting challenges that we are keen to tackle, bearing in mind, as we have done for the past 60 years, our way of doing things in which people and a commitment to our environment continue to be a major part of our mission.

During the strategic deliberation that will guide us through until 2022, we have analysed our position and the initiatives that we must promote in order to face challenges such as the acceleration of digitalisation and open banking, while maintaining the same vigour for our traditional business. We have also evaluated the technological, talent and data management skills that we need to strengthen to achieve the goals we have set. It is important to note here that, for the first time ever, one of the five major blocks in which the Plan has been structured explicitly includes sustainability as a strategic element for LABORAL Kutxa. This block is intended to be a cross-cutting element that sets out, from the perspective of governance and commitment to sustainability, how the rest of the programmes are addressed. Consistent with the strategic importance that we have given it, we have committed ourselves for this strategic period, together with the usual business and management objectives, to achieve 10 measurable sustainability objectives. These objectives cover the main social and environmental challenges we face as a company: equality, the environment, management of supplier companies and a contribution to the economic and social progress of our surroundings.

In addition to our 60th anniversary and the process of strategic deliberation, another particularly noteworthy development in 2019 was the changeover, due to retirement, of the General Management of LABORAL Kutxa. The new management team has been heading up the company for a year now, after an efficient handover process that allowed us to achieve the results we had set ourselves, while at the same time achieving industry-leading solvency, liquidity and profitability ratios.

Victor Hugo is credited with the phrase that nothing is more powerful than an idea whose time has come. Well, 2019 has been the year in which sustainability has transformed the way of thinking in the financial sector. From the banking regulators, through to industry initiatives and everything related to socially responsible investment (SRI), a turning point has been reached. The impact of the business on society, good governance and especially the contribution of finance in combating the climate crisis that we must address have become the main focus of agendas, initiatives and projects.

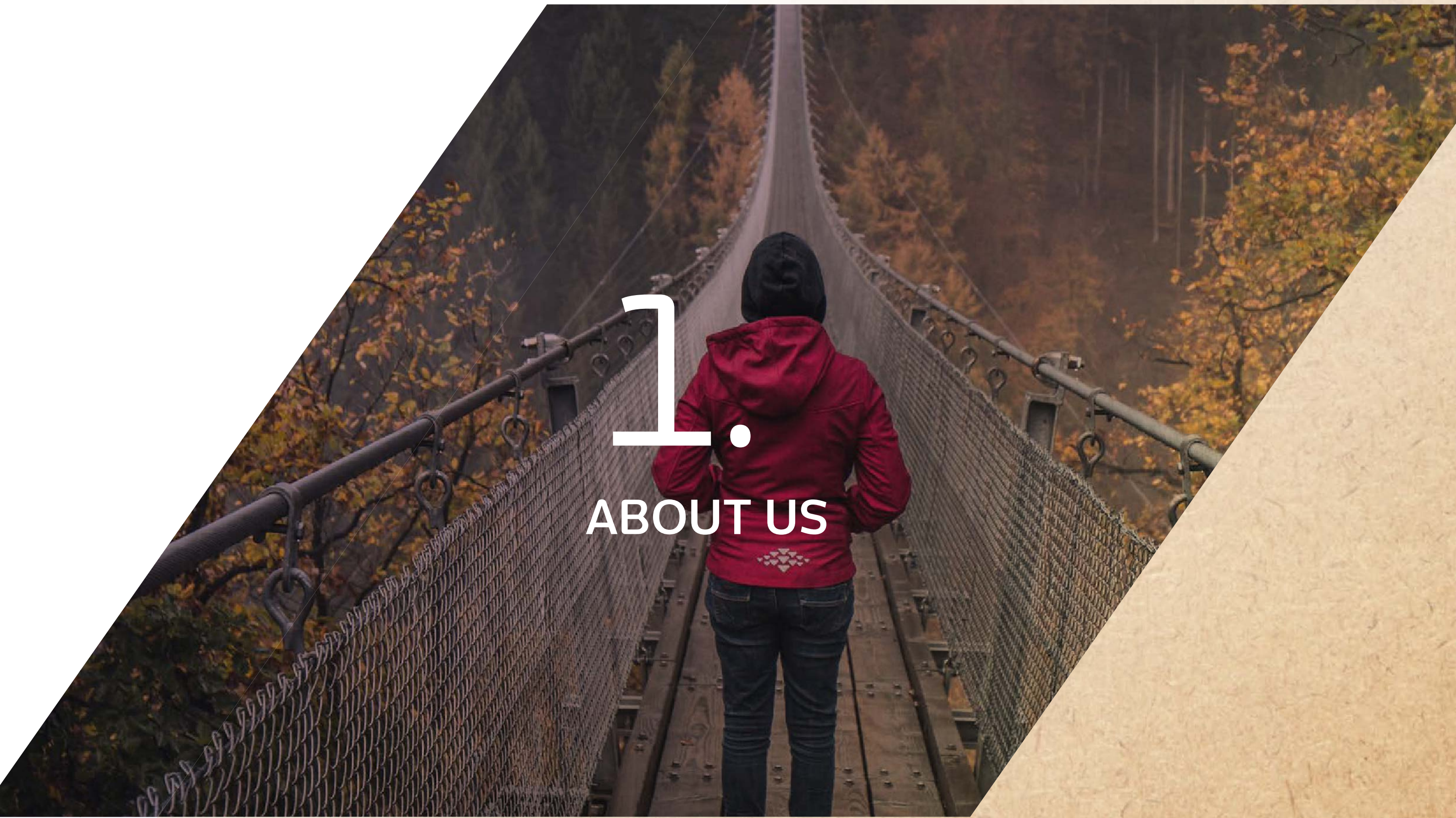
Within this transformation, a milestone in 2019 that we are especially proud of is that in September we became one of the 130 founding signatories to the United Nations Principles for Responsible Banking. This initiative, which is destined to become a reference within the sector, seeks to define the commitment and responsibilities of the financial system to contribute to a sustainable future, in line with the Sustainable Development Goals (SDG) and the Paris Agreements on climate change. These Principles provide the framework for the sustainable banking system of the future and help the industry to demonstrate how it contributes positively to society.

In LABORAL Kutxa, as a credit cooperative created precisely to contribute in a fair and equitable manner to the economic and social progress of our society, we want to be key players in this new way of understanding the banking system that the Principles promote. The same can be said with regard to the environmental challenges we face, both because of our responsibility towards the planet and future generations, and because we are aware that the worst consequences of the climate crisis will be suffered by the most disadvantaged For this reason, in 2020, one aspect we want to give greater impetus to is the analysis of the potential impact on our organisation and on our surroundings of the risks, both direct and transitional, of the climate crisis.

Before concluding, I would like to reiterate our commitment to the Principles of the United Nations Global Compact in order to continue advancing with respect to Human, Employment and Environmental Rights and the Fight against Corruption. We also maintain our support for the Sustainable Development Goals (SDGs) of the 2030 Agenda.

Txomin García Hernández

Chairman of LABORAL Kutxa



1. ABOUT US

1.1. Group presentation

LABORAL Kutxa, is presented on its corporate website as ***a solid and responsible model of cooperative and participative banking.*** *"LABORAL Kutxa represents a different way of banking, based on cooperation and commitment to our society. Our main objective is the satisfaction of each client and the generation of wealth and employment in our environment. We are a Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society."*

It is a credit cooperative in which the majority of the capital is held by the cooperatives of the MONDRAGÓN group and by working or retired members (collaborative partners).

The consolidated LABORAL Kutxa Group includes banking and insurance businesses. The "Retail Banking" business offers both investment and savings products. In investment, the main areas of activity are the marketing of mortgage products, consumer credit, working capital and corporate finance. As regards savings, the main products are deposits (on demand and term deposits), bank guarantees, means of payment services (credit and debit cards), investment funds, pension funds and EPSVs. This business is mainly carried out by Caja Laboral Popular Coop. de Crédito (hereinafter LABORAL Kutxa and with headquarters in Mondragón, Paseo JM Arizmendiarrieta s/n 20500 Gipuzkoa), through its network of branches, or by certain companies that are 100% dependent on it, which are considered a direct extension of the business carried out by the Parent Company. Strategic, management and operational decision-making is focused on the Governing Board of Caja Laboral Popular Coop. de Crédito.

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

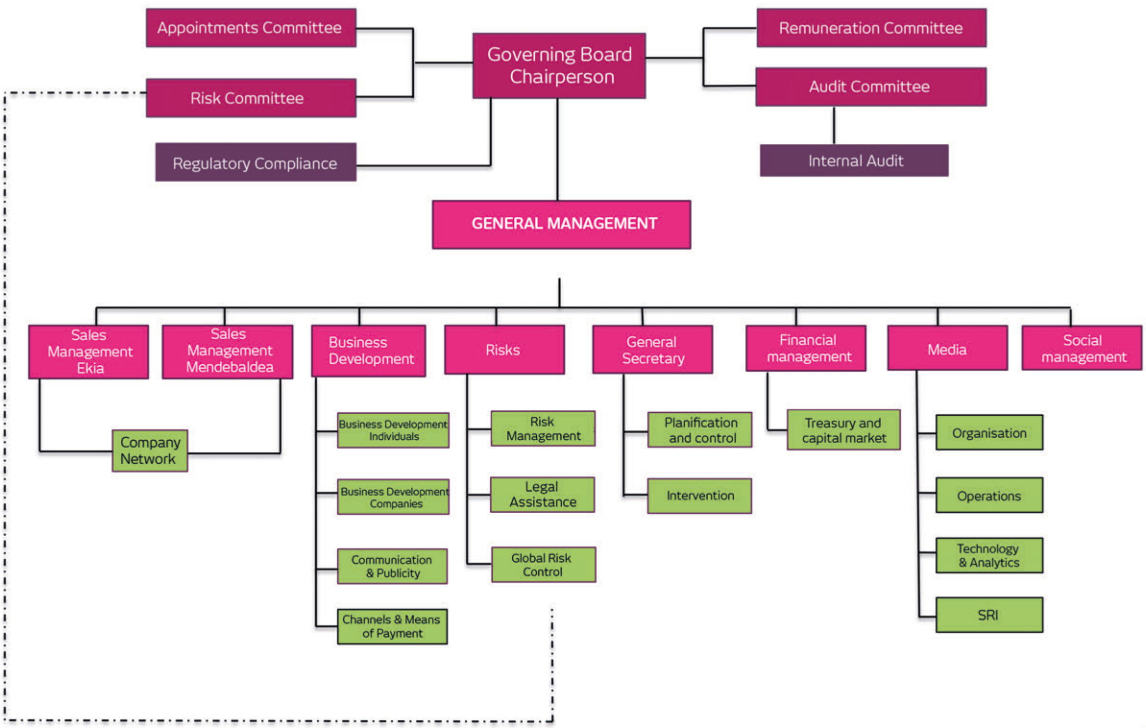
Seguros Lagun Aro Vida and Seguros Lagun Aro (hereinafter Seguros Lagun Aro) are two public companies, 100% owned by LABORAL Kutxa. Thus, even when the employees do not own the company, they participate in the management and business results.

The investee companies that make up the LABORAL Kutxa Group:

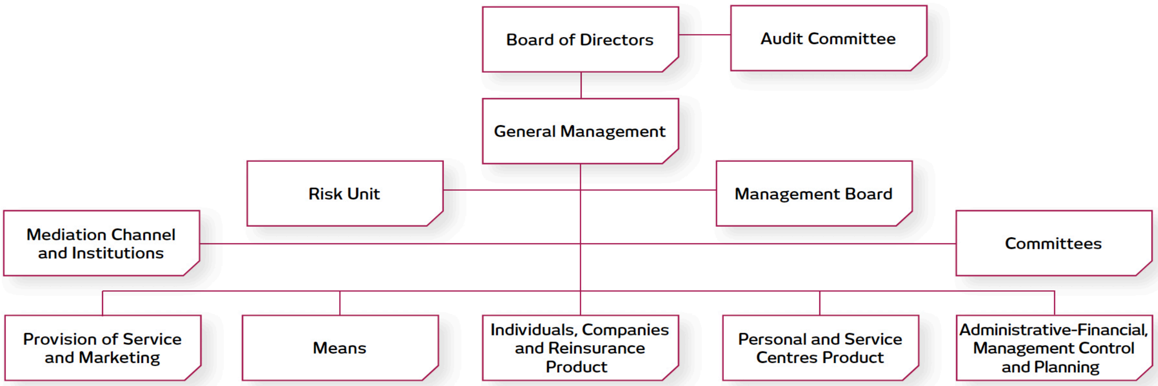
Dependent Entities	Activity	% Owned	Headquarters
Seguros Lagun Aro Vida, S.A.	Insurance	100%	Calle Capuchinos de Basurto nº 6, 2º, 48013 Bilbao (Bizkaia)
Seguros Lagun Aro, S.A.	Insurance	100%	
Seg. Lagun Aro 2003, IEA	Insurance	100%	
Caja Laboral Gestión SGIIC, S.A.	Investment fund manager	100%	Paseo José María Arizmendiarrieta 5, 1ª Arrasate-Mondragón 20500 Gipuzkoa
Caja Laboral Pensiones GFP, S.A.	Pension fund manager	100%	Paseo José María Arizmendiarrieta SN Edificio 5 1ª Arrasate-Mondragón 20500 Gipuzkoa
ISGA Inmuebles, S.A.	Real Estate Developer	100%	Paseo José María Arizmendiarrieta 4 Arrasate-Mondragón 20500 Gipuzkoa
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Holding company	100%	
Sociedad Gestión Activos Caja Laboral, S.A.U.	Property Asset Manager.	100%	
Caja Laboral Bancaseguros (CLBS) O.B.S.V., S.L.U.	Banking Insurance Operator	100%	Calle Gran Vía Diego Lopez de Haro, 2 – PISO 1, Bilbao, 48001, Bizkaia
Associated Entities			
ATEGI GREEN POWER, S.L.	Photovoltaic installations	28.57%	Calle Goiru (ed b), 1 – Piso 3, Arrasate/Mondragón, 20500, Gipuzkoa

1.2. Operating structure

The current structure as at 31/12 is basically spread across 5 large functional areas and expanded through the various Departments, Sections, Zones and Network of offices.



Lagun Aro Insurance



1.3. Cooperativism

WHAT DIFFERENTIATES US FROM OTHER BANKS AND SAVINGS BANKS?

WE ARE A COOPERATIVE CREDIT UNION	The people who serve you at LABORAL Kutxa are members of the organisation, we are committed to the project and believe in it, so we are dedicated to giving each person the best service. Customer satisfaction is the best guarantee for our business plans.
GIVING BACK TO SOCIETY. USEFUL BANKING, COMMITTED TO OUR SOCIETY	Our dividend is what we give back to society: 25% of our distributable surpluses are used to finance projects of economic and social interest, training and job creation. The rest we reinvest in the entity to strengthen its solvency and its future development.
WE ARE WORKERS, PARTNERS AND STAKEHOLDERS	LABORAL Kutxa is not listed on the stock exchange, it is not subject to speculative pressure from the financial markets. All partners participate in the capital and in the decisions of the organisation, with responsibility, assuming the consequences of our management. The key decisions are validated at the General Meeting with the participation of all partners, guaranteeing an efficient and responsible management that allows us to obtain profits and reinvest them in our society.

MISSION

A Credit Cooperative whose purpose is to meet the financial needs of its members and customers,

particularly individuals and companies, and who considers the quality of management and service to be a competitive advantage that allows it to achieve a very strong position in Efficiency and Profitability and to provide satisfaction to its customers and members.

The entity is part of the MONDRAGON Corporation. Channelling its commitment to social progress by providing special support for the activities of corporate institutions.

It also extends its social commitment to the economic and socio-cultural development of the society in which it works, paying special attention to the Basque language and culture, in the specific case of the Basque Country.
In order to grow, the company is firmly committed to the professional development of its staff and to creating a climate of trust that encourages innovation, teamwork, commitment and active participation.

VISION

The Entity is committed to being a leader in Quality and Service through local and personalised advice,

with products specific to the identified business segments, without losing sight of costs, where it aspires to maintain its current outstanding position, and to innovation which will be decisively pursued.

VALUES

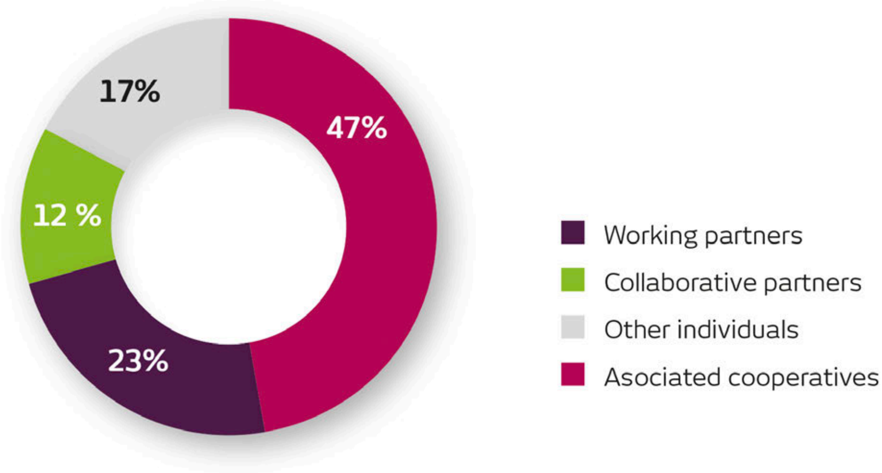
Values are how we are and how we act, and they are expressed in the behaviour of all the people who make up the Entity,

towards our stakeholders, because ethical behaviour among people is the basis for a sustainable balance in the company's decisions.

LABORAL kutxa

SHARE CAPITAL AS AT 31/12/2019

759.6 M EUROS



1.4. Values, principles, standards and rules of conduct

LABORAL Kutxa regulates individuals' activities on the basis of certain rules of conduct. In the area of the securities market, these rules or guidelines of conduct are essentially included in an "Internal Code of Conduct specific to the securities market", which applies to the people who make up the Governing Board, the Board of Directors and those involved in this area of activity. In 2018, the adaptation to Regulation 596/2014 of the aforementioned Internal Code of Conduct was approved and the CNMV was informed.

In the area of ethics and integrity, the entity's rules, which also apply to CLBS, are set out in the "Code of Ethics and Professional Conduct" and the "Guide to Good Practice and Professional Secrecy". Both documents are published on the intranet and are updated and reviewed by the Regulatory Compliance Department and the Internal Audit Department. Modifications to the Code of Ethics and Professional Conduct require the approval of the Governing Board.

As a continuation of the Code of Ethics, in the field of prevention and response to possible criminal behaviour applicable to the entity, the internal regulations are included in the "Crime Prevention and Response Manual" and in the "Criminal Compliance Policy".

There is a “Complaints Channel” that allows people to report, guaranteeing the protection of the complainant, irregularities of potential importance linked to the Code of Ethics and the Criminal Compliance Policy and the “Ethics Committee” acts as a supervisory body for these regulations, which is chaired by the Social Management Department and also includes Regulatory Compliance, Legal Advice, the Financial Department and Internal Audit. This body, in addition to monitoring, grants authorisations or exceptions and deals with the complaints received through the Complaints Channel, ensuring the appropriate action.

In 2019 and 2018 there were no queries or complaints.

The Group's insurance companies, Seguros Lagun Aro and Seguros Lagun Aro Vida, although having a legal status as a joint-stock company and not as a cooperative company, share a large part of the ways of doing business and cooperative values.

Seguros Lagun Aro is part of the *European mutual and cooperative insurance association - EURESA,* and shares the values of mutuality and cooperation that this Association defends and is, therefore, committed to:

- applying the guiding principles of the societal economy in all its activities,
- designing products and services that meet the real needs of consumers,
- ensuring that policyholders and shareholders are actively involved in the life of the company, either directly or through their representatives,
- combining the financial picture with ethical conduct, and
- ensuring that its activities are undertaken within the context of a people-centred economy geared towards sustainable and socially responsible development.

The contracts entered into by the real estate asset management companies with third parties in the course of their business, ensure that they comply with (and enforce their suppliers to comply with) the regulations related to occupational health and safety, respect for the environment and human rights, establishing specific obligations, their express acceptance by third parties, and serious penalties for non-compliance.

1.5. Geographic distribution of offices

LABORAL Kutxa incorporates the insurance activity within a strategy of Banking and Insurance, so that the Group companies (Seguros Lagun Aro SA in the Non-Life areas and Seguros Lagun Aro Vida) market their products for the most part through the offices and the website of LABORAL Kutxa. Seguros Lagun Aro complements these banking channels with a network of selected brokers.

The Private Individuals offices are staffed by people from LABORAL Kutxa and also people from its investee, Caja Laboral Bancaseguros SLU, an associated Banking-insurance operator - CLBS. **CLBS** incorporated all the people coming from Seguros Lagun Aro who were part of the Sales Network of the "Direct Channel" of Seguros Lagun Aro, and also some other support staff, basically in marketing activities. In 2019, 5 offices were closed.

There is also a specialised network of companies (to which must be added the Cooperatives and Large Companies office and the Public Sector office).

OFFICE DISTRIBUTION MAP

1.6. The Group's main figures

Item	2018	2019
Total assets (Mll)	22,989	25,058
Own Funds (Mll)	1,689	1,764
Customer deposits (Mll)	19,481	21,425
Credit to customers(Mll)	13,253	13,973
Offices	309	304
ATMs	535	538
Interest Margin (Mll)	246.5	249.9
Gross Margin (Mll)	394.7	395
Administration Costs (Mll)	227.0	218.9
Profit after tax (Mll)	124.2	127.4

The distribution of wealth generated by the **Group** is shown in the following table:

Item (thousands of €).	2018	2019
1. Directly generated financial value	**392,642**	**401,806**
Gross Margin (before other operating charges)	389,674	399,130
Profits on Sale of Material and Awarded Assets	2,968	2,676
2. Distributed financial value	**284,212**	**284,975**
Payment to supplier companies (Operating costs)	107,011	104,733
- other general administrative costs.	75,180	70,979
- other operating charges	31,831	33,754
Staff costs	108,506	108,406
Income tax	11,418	11,689
Interest on capital	33,565	34,316
Investment / Donations to the community	23,712	25,831
Development and Education Fund (FEP)	9,485	10,332
Intercooperative Social Fund (FSI)	14,227	15,498
3. Financial value retained (1-2)	**108,430**	**116,831**

With regard to the real estate asset management companies, Caja Laboral is the owner (sole shareholder) of two companies, ISGA, S.A. and Sociedad para la Gestión de Activos Inmobiliarios de Caja Laboral, S.L. (SGA). The companies have recorded a loss, included in the Group's consolidated results, of €14.3M.

Item (thousands of €). Management of real estate assets	2018	2019
Revenue (Sales)	68,320	45,286
Operating costs	6,588	4,274
Staff costs	0	0
Financial costs for interest and dividends	624	388
Gross tax	2,527	2,085

Regarding CLBS, the key financial figures, included in the consolidated results, are:

Item (thousands of €). CLBS	2018	2019
Turnover (commissions)	39,758	41,400
Staff Costs	10,703	10,270
Total Costs	37,459	37,911
Pre-tax profit	2,457	3,490

The objective of the real estate asset management companies in 2019 was to purchase assets from developers in payment of debt owed to LABORAL Kutxa and to dispose of all the assets owned, both finished products (houses, garages, premises, etc.), as well as completing the work in progress in order to sell the final product and also the sale of land or its management for transformation into housing, through self-build development or by building.

In 2019, via the ISGA company, work was carried out on 17 real estate projects involving the construction of 707 homes, of which 4 projects have been completed, bringing the total number of completed homes to 87.

None of the land, developments in progress or completed housing is adjacent to or located within protected natural areas or unprotected areas of high biodiversity.

The activity of these real estate asset management companies, implies a minimum participation in the Spanish real estate sector. Its indirect effect is related to the contracting out to third parties of the activities necessary for its execution.

LABORAL Kutxa performs its tax obligations in the regions in which it operates. It thus contributes to the sustainability of public services and the progress of Society. The amounts relating to 2019 are as follows:

Taxes and duties (thousands of €) LABORAL Kutxa	2018	2019
Corporate income tax	11,418	11,689
Taxes (property tax, tax on professional and commercial activities, etc.)	7,593	7,451
V.A.T.	2,198	7,620 (1)
Total	**21,209**	**26,760**
Taxes and duties (thousands of €) Lagun Aro	**2018**	**2019**
Corporate income tax	1,951	1,904
Taxes (property tax, tax on professional and commercial activities, etc.)	92	89
Total	**2,043**	**1,993**

(1) VAT for the consolidation group from 2019.

The Public Administration does not form part of the capital nor does it have any representation on the governing bodies of LABORAL Kutxa. The financial support received from the Administration is as follows:

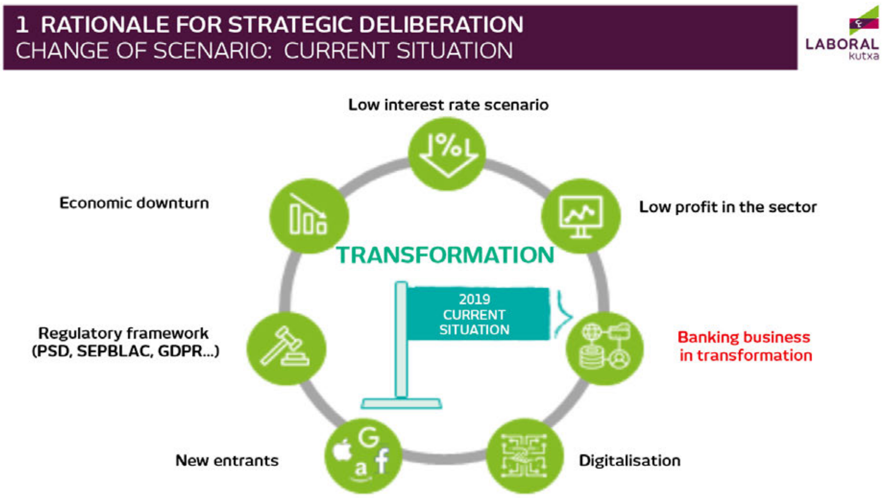
Item (thousands of euros)	2018	2019
Subsidies (aid for employment, training and energy investments)	538	308
Item (thousands of euros)	**2018**	**2019**
Subsidies Lagun Aro (Euskera)	20	11

1.7. Strategy and risk management

A strategic deliberation was carried out during 2019 which led to the preparation of a Strategic Plan for the years 2020-2022. The strategic deliberations at LABORAL Kutxa follow an annual cycle, as part of a management process that systematises competitive surveillance in the various markets and the review of business models and strategic commitments, which are then developed in each Management Plan.

The 2020-2022 Strategic Plan has been prepared after a period of deliberation that began with an assessment of the degree of compliance with the 2016-2019 Strategic Plan and a diagnosis of the internal and external situation. This was the first strategic deliberation to be carried out with a cross-group perspective which also included the insurance companies. It was a process led by the Board of Directors in which different levels of the cooperative participated, from department heads to section heads and staff from the sales network. The project was supported by Deloitte and was approved by the Governing Board.

The following ambition was defined:

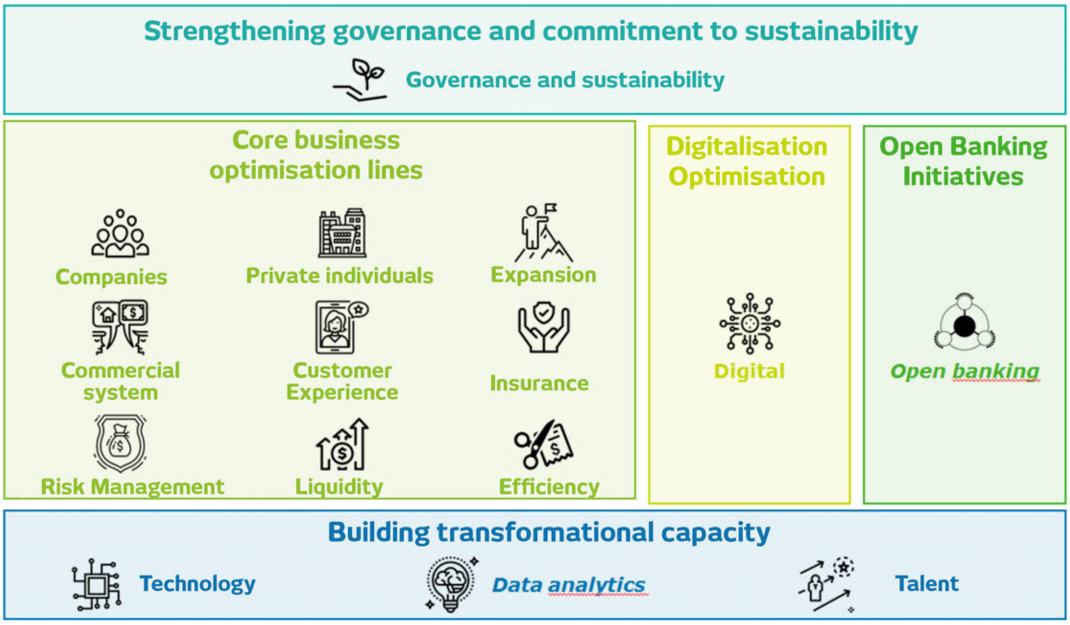


Transformation of the entity in order to ensure its competitiveness and future sustainability in a complex market environment by means of a differentiating approach.

The main action points that have emerged from the strategic deliberation are

- **Profitability - income statement.** In an environment of extremely low interest rates, sustaining the current levels of profit will be the main objective for the year. This will require an increase in business volumes.
- **Solvency.** Solvency management will be another of the fundamental management tools, being the main parameter that guarantees the future and independence of the entity.
- **Business strategy.** The commercial strategy will be aimed at increasing market shares to a greater or lesser extent depending on the different regions, segments and priority businesses, thereby increasing the dynamics of the commercial activity.
- **The insurance business.** Opportunities and competitive differentials should be harnessed to drive growth by promoting higher levels of integration of organisational strategies, policies and culture.
- **Risk Policy.** The strategic deliberation will lead to a review of the current risk appetite framework, and risk policies will also be reviewed and, where appropriate, redefined. The changes in the business strategy, and the projections and decisions in the area of treasury and capital markets will be aligned with this framework.
- **Treasury and capital markets.** In a scenario like the current one, marked by the continuous generation of liquidity and an unstable environment with major difficulties in obtaining an acceptable risk-return ratio, the investment strategy for the surplus liquidity will be implemented with a criterion of prudence.

The implementation of the Strategic Plan for the years 2020 - 2022 will be based on five major blocks covering 15 programmes.



Risk management is considered to be a key element in this strategic plan. For this reason, the risk appetite framework desired by the entity has been reviewed and the fit of the objectives set out in all programmes has been subsequently adjusted. In addition, measures are proposed to extend the risk culture in the network and the first steps are taken to improve the internal models.

Sustainability and corporate governance appear for the first time in this Strategic Plan as a transversal element that covers all the programmes that shape it. In the area of sustainability, the company will continue to contribute to the economic and social progress of its surroundings and to reduce the impact of its activities on the environment. These projects align with the *Sustainable Development Goals* (SDGs) and with the 2030 Agenda.

In addition, each year **Seguros Lagun Aro** draws up its Management Plan, which establishes objectives and action plans, in accordance with the balance of quantitative indicators in its management *scorecard* as well as the qualitative conclusions.

1.8. Principles and governance

Corporate governance

LABORAL Kutxa has not established any formal policy for hiring senior managers native to the geographical areas where it carries out its work, as the business is carried out at a national level and the criteria followed are those based on appropriate professional skills. All of the executive staff (the 8 members of the Board of Directors) are from the areas where the Entity operates.

With regard to Corporate Governance, we can cite as progress made in 2019 that:

- As a result of changes in the Governing Board, the composition of the Audit Committee and the Risk Committee were changed, and performance reports were prepared for those directors who stood for re-election.
- The manual governing the procedure for selecting and assessing the suitability of directors and key office-holders was adapted to the EBA guidelines.
- The "CNMV Technical Guide 1/2019 on Appointments and Remuneration Committees" was incorporated into the internal procedures.
- The policy for the selection, appointment, reappointment and diversity of candidates for governing directors was updated. The balance of knowledge, skills, diversity and experience of the Governing Board has also been assessed.
- The annual assessment of the suitability of both the members of the Governing Board and the key office-holders has been carried out.
- The application of the procedures followed for the selection and appointment of senior management members appointed in 2019 has been analysed.

At the Lagun Aro Board of Directors meeting in January 2019, in accordance with Article 18 of Royal Decree 1060/2015, 20 November, on the organisation, supervision and solvency of insurance and reinsurance companies ("RDOSSEAR"), the minutes recorded that each and every one of the members of the Company's Board of Directors had fulfilled the requirements of suitability and good repute.

Governing Body	Between 30 and 50				Over 50			
	2018		2019		2018		2019	
	M	W	M	W	M	W	M	W
Governing Board (1)	2	3	1	4	4	3	5	2
Auditors	1	0	1	0	1	1	1	1
Resources Committee (2)	9	3	9	3	-	-	-	-
Operations Committee	0	2	0	3	3	0	2	0
Audit Committee	1	0	0	1	0	2	2	1
Appointments Committee	1	1	1	1	2	1	2	1
Social Council	10	7	10	10	2	1	2	1
Board of Directors	1	0	3	1	6	1	3	1
Risks Committee	0	2	0	3	2	1	2	1
Remuneration Committee	0	1	1	1	2	1	2	1

(1) 4 of which are working partners.
(2) Age data not available.

All information regarding corporate governance is available on the LABORAL Kutxa corporate website. https://corporativa.laboralkutxa.com/informes/

The supervisory bodies of LABORAL Kutxa are:

Committee/Organisation	Duties	Year of est.
Structure of the administrative body		
Governing Board	Senior management, supervision of Management, representation of the Company. Analyses annually the aspects related to CSR and the impacts, risks and economic and social opportunities on a continuous basis.	1960
Resources Committee	Statutory body responsible for resolving appeals against certain decisions of the Governing Board. Elected at the General Meeting	1993
Audit Committee	Supervises internal audit services, knows the financial reporting process and internal control systems, supervises compliance with codes of conduct and corporate governance rules	2004
Appointments Committee	Identifies candidates for the Governing Board, evaluates the suitability of its members and the balance of knowledge, skills, diversity and experience of the group. Pursues an objective of representation of the underrepresented sex.	2012
Risks Committee	Advises the Governing Board on the management and supervision of all significant risks and on the monitoring of the application of the global propensity for risk appropriate to the Company's strategy.	2015
Remuneration Committee	Proposes to the GB the general remuneration policy, ensuring an independent annual evaluation of its application and informing it of the remuneration policy of the executives included in the "identified group".	2016
Supervisory and advisory bodies		
Social Council	Employment system, advice to the Governing Board and General Management	1960
Customer Service	Management of customer queries, complaints and claims.	1994
Health and Safety Committee	Consultative body on Occupational Risk Prevention.	1996
Hizkuntza Batzordea	Committee for linguistic standardisation.	2000
Environment Committee	Environmental System Management.	2001
Money Laundering Prevention Committee	Control and communication body for the Prevention of Money Laundering.	2003
CSR Committee	Delegated body of the Board of Directors in matters of CSR and with the participation of members from the various Departments and Insurance. Approves the CSR Report. It is chaired by the Head of Quality, who gives an annual statement to the Gov. Board.	2008
Global Risk Control and ALCO	Control of liquidity, interest rate, credit, market and operational risk. The ALCO is the Assets and Liabilities Committee.	2008
Equality Committee - Berdintasuna	Promotes and guarantees equality between women and men and monitors the current Equality Plan.	2009
Operational Risk Committee	Global control of operational risk	2010
Ethics Committee	Ensure the application of the principles and values that govern the business, primarily those included in its *Code of Ethics and Professional Conduct*	2015
Products Committee	In applying MiFID, it evaluates and approves the risks of each product offered to the clients.	2015
Integrated Security Committee	Ensures a comprehensive security strategy for the Entity, both physical and logistical.	2015
Projects Committee	Orders and prioritises the priority interdepartmental projects to ensure their success	2017
Data Protection Committee	Supervises and promotes policies and procedures regarding data protection.	2019

In order to avoid conflicts of interest between the Company and the members of the Governing Board, in addition to the rules on incapacities and incompatibilities established in the Articles of Association and the Internal Code of Conduct for the Securities Market, there is a specific provision in the Governing Board's Regulations concerning the voting system for adopting resolutions in which such conflicts may arise.

These procedures, which have been included in previous Reports, consider:

- Incapacities and incompatibilities of the members of the Governing Board.
- Code of Conduct for the Securities Market.
- Regulation of the Governing Board's Regulations to avoid conflicts of interest.

The Ethics Committee's mission is to promote the ethical behaviour of LABORAL Kutxa in all its activities. It is an autonomous body reporting to the General Manager that is established as a channel for the *Complaints Management System* regarding breaches of the Code of Ethics and professional conduct, as well as in criminal matters and as a manager in disciplinary proceedings. Every year it submits an *Evaluation Report* to the Board of Directors in the event of any problematic situation. The Committee is made up of 5 people, currently 3 men and 2 women.

Each year the Appointments Committee performs a continuous assessment of the individual suitability of the members of the Governing Board (their integrity, knowledge, experience and willingness to exercise good governance) and of the balance of knowledge, ability, diversity and experience of the Board as a whole. Also, the evaluation report on the structure, size, composition and performance of the Governing Board is presented in the same Committee on an annual basis.

With respect to the Risk Committee, the Company conducts an annual review, based on its strategy and the level of health of its financial situation, of risk tolerance levels in what is known as the *Risk Appetite Framework*, tolerance levels that refer to capital, liquidity and profitability, and the monitoring of which is carried out with a series of indicators that are reported to the banking regulator. In addition, the Governing Board annually approves the *Credit Risk Policy Manual*, which includes risk policies, procedures and criteria.

In 2017, the Board of Directors approved a new Projects Committee, whose purpose, supported by a *Project Office*, is to improve the management of those projects that are defined as priorities within the annual Management Plan.

As regards risk management, a detailed description of the different basic risks can be found in the annual ***Information of Prudential Relevance***, which details the trends and impact on the business of the most important risks: credit, market, operational, interest rate as well as the risk profile and management mechanisms applied.

At **Seguros Lagun Aro** the final responsibility for the management, control and mitigation of risks lies with the Board of Directors and Senior Management. There is a "Policy of suitability for key positions" that aims to ensure that all the people who run Seguros Lagun Aro meet the requirements of suitability and integrity. Both bodies are responsible for:

- The communication of general principles and documented management policies, including the design and updating of the risk management framework.
- The definition, understanding and periodic review of the exposure profile that the Company wishes to assume at any given time depending on the defined business strategy.

- Ensuring the suitability and periodic review of the limit structure of the different risks, taking into account the desired exposure profile.
- Ensuring an adequate organisational structure of the risk management: assigning responsibilities, ensuring that there are no conflicts of interest through the appropriate segregation of duties.
- Approving risk management policies, ensuring that they include the functions assumed by each body in relation to risk management and control, the hierarchical link between functions and the reporting lines.
- Ensuring the independent review of the risk management framework and the incorporation of recommendations made by Internal Audit.

Independently of the members of the administrative and management bodies, Seguros Lagun Aro has defined the following fundamental functions of the governance system:

Risk management function

- ✓ Defining the methodologies and indicators to be used for the measurement and evaluation of risks and assisting in their implementation.
- ✓ Working with the technical divisions in the identification and categorisation of risks and preparing the Company's risk matrix.
- ✓ Carrying out periodic evaluations on the impact that future scenarios and stress situations would have on the level and solvency of the Company.
- ✓ Assisting the technical departments in applying the methodology and the underwriting risk measurement and evaluation models.
- ✓ Evaluating the structural mismatch between assets and liabilities
- ✓ Evaluating the adequacy and integrity of the information used to quantify risk
- ✓ Actively participating in the new product approval process
- ✓ Leading the process of internal evaluation of risks and solvency of the Company, being responsible for preparing the appropriate report.

Regulatory compliance function

- ✓ Determining and assessing the risk of regulatory non-compliance and keeping the regulatory risk map up to date.
- ✓ Advising on new products, services and markets from a regulatory point of view.
- ✓ Verifying the preparation, coordination and execution of the Compliance Plan.
- ✓ Continuous staff training on regulatory compliance.

Internal Audit Function: Check the adequacy and effectiveness of the internal control system and the various elements of the Governance System.

Actuarial function

- ✓ Coordinating and reviewing the calculation of Technical Provisions.
- ✓ Expressing an opinion on the underwriting strategy of each Company.
- ✓ Expressing an opinion on reinsurance agreements and retention strategy.
- ✓ Contributing to the effective implementation of the risk management system.

For each of the above-mentioned functions, there are written policies approved by the management and governing body of the Company which define, among other things, the tasks and responsibilities with a suitable distribution and a clear separation of functions in accordance with the current Solvency II regulations on independence.

1.9. Development of the governing bodies

In 2018, the third training programme directed at the members of the Governing Board and members of Management was completed. This 136-hour training programme, provided by AFI School of Applied Finance, began in 2017 and covered aspects of economics, financial markets and investment management (regulation, risks, etc.), banking company management, company finance and insurance company management. The fourth programme was designed during 2019 and will commence in February 2020.

Training on corruption issues is referred to in the 2014 Report. In 2016, the members of the Governing Board received the same training as everyone else on the Crime Prevention and Response Manual and the Criminal Compliance Policy.

1.10. Remuneration of the governing bodies

The people who form part of the Governing Board of LABORAL Kutxa and the Board of Directors of Lagun Aro do not receive remuneration for their governing functions and, therefore, there is no link between their remuneration and the performance of the Company. The following table shows the remuneration of the members of the Board of Directors, the Chairman of the Governing Board and the Directors who, as working partners, have formed part of the Governing Board in the years indicated.

LK Item (thousands of euros)	2018	2019
Total pay for their work	1,390	1,534
Capitalised cooperative returns + Contribution interest	284	243
Total	1,678	1,777
Average pay per person	139.9	126.9

With regard to the remuneration of the Board of Directors of Lagun Aro

Lagun Aro Item (thousands of euros)	2018	2019
Total pay for their work	484	458
Capitalised cooperative returns + Contribution interest	3	3.9
Total	487	461.9
Average pay per person *	97.4	92.38

* 3 men and 2 women in 2019 and 4 men and one woman in 2018.

1.11. Corruption and bribery

Laboral Kutxa has a *Criminal Compliance Policy,* with several Regulations and Codes of Conduct including, among others:

- Code of Ethics and Professional Conduct,
- Guide of Good Practices and Professional Secrecy,
- Internal Rules of Conduct specific to the stock market.

Organisationally, it has also set up an *Ethics Committee,* an *Internal Audit* department and a *Regulatory Compliance* department to prevent irregularities and monitor compliance with rules and procedures.

Business units analysed

Below are the business units of LABORAL Kutxa that have been analysed with respect to risks related to corruption:

	2018		2019	
	Actual	Target	Actual	Target
Total no. of offices analysed	83	83	93	88
% Offices analysed	27%	27%	31%	29%

It should be noted that the controls and remote audit analyses implemented have an effect on 100% of the branches of the Organisation.
In the 2 real estate asset management companies, ISGA and SGA, the necessary preparations have been made to adapt to the new regulations in the area of Prevention of Money Laundering, and these have been examined by independent experts.

With respect to measures taken in response to incidents involving corruption, there have not been any such cases in 2018 or 2019.

During 2019, the internal control and communications procedures and organisations were subject to an annual review by an external expert, PB Consultores S.L., which assessed the operational effectiveness of the procedures and organisations in the prevention of money laundering as **"**Very Good**"** with a higher score than that of the previous year. Below are the actions that were carried out during the past year:

Actions taken in 2019
The Manual on the Prevention of Money Laundering and Financing of Terrorism has been amended, introducing several improvements.
The six-monthly reports, Summary of Special Examination Transactions and a Self-assessment Risk Report on Money Laundering have been produced.
The transaction relating to the "Statement of Movement of Means of Payment" has been improved, adding a notice on the consequences of transferring means of payment without the S1 document.
Internally, the existence of a Complaints Channel in the Entity to report illegal actions has been reiterated through an Informative Note
The Remediation Plan has been updated to address deficiencies in the Formal Identification of customers.
Analysts and the person in charge of the PBC Unit have received specific practical training in the Prevention of Money Laundering

The Money Laundering Prevention Unit has sent 10 reports of transactions suspected of money laundering to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences.

In **Seguros Lagun Aro**, the planning of *internal audits* to supervise the inherent risks of subscription and compliance with regulations and/or administrative procedures, as well as the document management, are carried out in 100% of the branches, both in the CLBS channel and in the Brokerage channel, based on the alerts and analysis of the risk groups established for the various audits, both annual and daily.

Regulations and codes of conduct

LABORAL Kutxa regulates individuals' activities on the basis of certain rules of conduct. In the area of the securities market, these rules or guidelines of conduct are essentially included in an "Internal Code of Conduct specific to the securities market", which applies to the people who make up the Governing Board, the Board of Directors and those involved in this area of activity.

In the area of ethics and integrity, the Entity's rules are are set out in the "Code of Ethics and Professional Conduct" and in the “Guide to Good Practices and Professional Secrecy”. Both documents are published on the intranet and are updated and reviewed by the Regulatory Compliance Department and the Internal Audit Department, respectively.

As a continuation of the Code of Ethics, in the field of prevention and response to possible criminal behaviour applicable to the Entity, the internal regulations are included in the "Crime Prevention and Response Manual" and in the "Criminal Compliance Policy". In 2019, a criminal risk reassessment process was initiated, as well as the above-mentioned update of the Manual and the Policy, that will be completed next year.

There is a "Complaints Channel" that allows people to report irregularities of potential importance linked to the Code of Ethics and the Criminal Compliance Policy. There is also an "Ethics Committee" as a body for criminal prevention, with the mission of promoting ethical behavior in the Entity, resolving queries on the subject and dealing with complaints received in the Complaints Channel.

1.12. Money laundering

The management policies of LABORAL Kutxa identify the greatest risks in the areas of corruption and bribery with *the fight against money laundering and the financing of terrorism.* In this regard, it undertakes to establish the necessary bodies and procedures in accordance with current regulations and international standards. For this reason,

- The *Committee for the Prevention of Money Laundering and the Financing of Terrorism* and a *Prevention Unit* have been created within the organisational structure of the Entity, with specific functions in the area of prevention.
- Precise rules and procedures have also been established, which are contained in a *“Money Laundering and Financing of Terrorism Prevention Manual”,* the latest version of which was approved on 30/01/2019.

This policy applies to the entire LABORAL Kutxa Group, including the subsidiaries.

The objectives of these rules and procedures, which must be complied with, are:

- To strictly comply with the regulations in force at all times, as well as the recommendations issued by national and international bodies and authorities.
- To introduce rules for action and appropriate control and communication systems to prevent funds of a criminal origin from being channelled through the LABORAL Kutxa Group and to impede access to certain persons.
- To establish customer admission policies.
- To ensure that working partners and other employees adhere to the "know your customer" procedures.

These policies and procedures are primarily preventive in nature. In addition, internal control procedures are subject to an annual review by an external expert so that a rationale for continuous improvement in reducing exposure to these money laundering and financing of terrorism risks can be applied.

The real estate asset management companies maintain a policy and have implemented a money laundering prevention system that establishes the bodies, procedures, internal controls and appropriate tools to comply with the regulations applicable in this field. The quality of this system and its practical application are examined annually by an independent expert and, in the examination relating to the 2019 financial year, it was rated positively without any incidents.

1.13. 22 Regulatory Compliance

The Regulatory Compliance Department includes, within its management scope, the detection of transactions suspected of market abuse. In 2019 the computer application registered 474 alarms which, once analysed, were not classified as transactions suspected of market abuse and, therefore, no case was reported to the CNMV in 2019.

With regard to Lagun Aro:

VOLUNTARY ADHERENCE TO SELF-REGULATORY INDUSTRY GUIDELINES: committed to business excellence and best corporate practices, we comply with the following guidelines promoted by UNESPA, whose recommendations we follow:

- guide to good corporate governance practices
- guide to good internal control practices
- guide to good commercialisation practice
- guide to good complaint handling practices

The company also adheres to the Code of Good Practice for Claims Management initiated by ADECOSE.

2. RESPONSIBLE MANAGEMENT

2.1. Management approach

The relationship with our main stakeholders is based on the following basic lines:

As the banking activity is basically aimed at the service of and relationship with customers, *the responsible management of customers is a priority*, especially with regard to the sale of complex savings products, and *excellence in service quality* as well as *contact with the customer* are aspects identified as being of the highest importance in our outward-looking matrix. In all of the above, our objective is for these to be areas in which LABORAL Kutxa maintains sustainable advantages over our competitors.

Specifically, the comparative data with competing entities show positive differentiations in general, but they are particularly significant in important aspects such as the *transparency and clarity* of information, the *trust* we generate among our customers and, in general, the *commitment* that our Entity takes on with society as a whole.

In point 3.1 Our relationship with customers, we describe in detail our achievements in these areas, also including our efforts at transparency with regard to the solution of problematic situations with a significant social impact such as *over-indebtedness* of customers for the purchase of homes or claims of lack of validity, due specifically to a lack of transparency, or to *floor clauses* applied to interest on mortgage loans.

In relation to people, LABORAL Kutxa is a Cooperative Credit Union in which working people are members and owners of the company with full rights and responsibilities, both in carrying out their professional duties and in the right to participate in management through the relevant bodies and in the profits from the business. This difference compared to other companies defines the approach to the relationships within the company, meaning that workers are involved in all three of the possible areas: ownership, results and also management methods, because our aim is to make our management democratic and responsible. Specifically, the key decisions are validated at the General Meeting with the participation of all partners, guaranteeing an efficient and responsible management that allows us to obtain profits and reinvest them in our society.

The *Cooperative Education* training programmes reinforce the cooperative identity of the members, and encourage the integration and socio-entrepreneurial involvement of new members.

In point 3.2 Our relationship with the workforce these and other initiatives are developed further.

Another significant distinguishing feature of LABORAL Kutxa is its commitment to society due to its legal status as a Credit Cooperative. As a result, by law, 10% of the distributable annual profit of credit cooperatives is directly allocated to society. In the case of our Company, this percentage is substantially higher, 25% to be precise.

LABORAL Kutxa was founded in the Basque Country as part of a Business Group with a strong commitment to serve society, whose mission includes the creation of associated and participatory cooperative work as an essential way to create wealth and well-being, both among its direct social partners and in the society in which it is immersed.

Due to its legal nature and its cooperative vocation, LABORAL Kutxa directs a significant part of its charitable contributions to the promotion of the cooperative world, but it also reserves specific provisions for local initiatives in the areas where its offices are located, and particularly for specific activities such as the promotion of *self-employment and entrepreneurship* (in this case through a specific Foundation, *Gaztenpresa)* and support for the Basque language and the promotion of Basque culture.

These mechanisms are described in point 3.3 Our relationship with society.

In order to optimise its relationship with the environment, since 2001, LABORAL Kutxa has been using an *Environmental Management System,* in accordance with the ISO 14001 standard for all the activities it carries out in the three buildings at its Central Headquarters. Although it is not part of the certified system, LABORAL Kutxa transfers the majority of its environmental activities from central services to the other work centres. This certification was renewed in 2019.

The Environmental Management System is the responsibility of an Environmental Committee made up of members of the Legal Department, Internal Audit, Risks, Fixed Assets, Security and General Services and Management Planning and Control, with the latter acting as the Coordinator. In accordance with the precautionary principle of the *Rio Declaration*, it addresses the possible impacts of the activity with a view to preventing any environmental damage.

A very significant new development in 2019 was the signing by LABORAL Kutxa of the United Nations Principles for Responsible Banking. Although these Principles refer to the entire area of sustainability, given the emergency situation of the climate crisis, they place special emphasis on the impact of our activity (credit and investment) on the environment.

Point 3.4 Our relationship with the environment, describes these mechanisms.

With respect to the management of suppliers, it is important to remember the value of adequate management of the *supply chain* in order to achieve the objectives of responsible activity.

Without a doubt, the financial activity that we carry out, as well as the local presence in a very specific geographical area, means that the management risks of these companies are not excessively important. Nevertheless, as will be seen later on, LABORAL Kutxa has several initiatives under way with regard to suppliers.

A special mention within the suppliers is that of Lagun Aro's brokers, which reaches the level of significant stakeholder within the insurance activity. At the Group level, it is considered a supplier with differentiated characteristics.

Point 3.4 Our relationship with supplier companies, describes these mechanisms.

2.2. Commitments and achievements

Below are the main CSR actions carried out during 2019, in accordance with the commitments made by LABORAL Kutxa in its previous CSR reports, as well as with the objectives for 2020. These actions are segmented according to the Interest groups (in addition to the environment) defined by the Entity: People-Workforce (P), Customers (C), Society (S) and Supplier Companies (Sup).

Actions in the field of CSR	Status of the action/objective	Governance mechanisms in place and execution time	Materiality and stakeholders affected
Basic projects and actions in 2019 and pending from previous years			
Strengthen solvency and liquidity	**Ongoing**	Strategic priority	High P and C
MiFID II. Plans to improve customer information and advisory systems and tools	**Completed**	2017 Prioritised project	High C
Development of procedures and systems for contracting suppliers. Development of application and recruitment table.	**Completed**	2017 Supplier project working group	Medium Sup
Implementation of the III Berdintasuna Plan - Equality. Preparation of the IV.	**Completed**	Committee Berdintasuna 16-19	High P
Using digitalisation to reduce paper consumption and boost the multi-channel relationship	**Partially Completed.**	Digitalisation strategic focus	Medium S
Carry out the merger of offices to increase efficiency while avoiding the financial exclusion of small communities.	**Completed**	Commercial Division 2016	Medium S
Linguistic standardisation: Implementation of the Strategic Plan for the Basque Country 2016-2019	**Completed**	Hizkuntza Batzordea 16-19	Low C and P
Development of digital skills for Staff	**Ongoing**	Strategic focus 2018 digital skills	High P
Maintain positions of excellence in the management of customer relations	**Ongoing**	Integrated Quality Process	High C
Continue to expand the coverage of Socially Responsible Investment	**Partially Completed**	Specific team	Medium C and S
Green MiFID	**Delayed until 2020**	2019 Management Plan	Medium C and M
Implement BIDEAN and ensure its sustainability	**Completed**	Culture and values strategic focus 19	High P
Ren. EIF InnovFin and EaSI Social agreement	**Completed**	EIF 2019 agreements	Medium-high S and C
Development of management systems that promote a constructive and collaborative culture, with self-reliance and continuous learning	**Ongoing**	Culture and values strategic focus 2019	High P
Review of market abuse control procedures	**Partially Completed. Awaiting IT development**	2019 Management Plan	High S
Formation of the Data Protection Committee	**Completed**	PDSI 2019	High S and C
Implement a Recognition System for people.	**Designed, implementation in 2020**	Culture and values strategic focus 19	High P
Development of multi-channel customer relations, payment methods and direct marketing	**Ongoing**	Strategic focus Omni-channelling, Onenak 4.0 2019	Medium C and P
Implement the Zainduz Health Plan	**Completed**	Working team 2019	High P

Support for creating and consolidating companies through MONDRAGON	**Ongoing**	Funds through FSI and FEP 2019	Medium-low S and C
Financial education plan.	**Completed**	Financial Education Committee 2019	Medium-low S and C
Actions in the field of CSR. Basic projects and actions for 2020			
Coaching 400 entrepreneurs to launch their micro-enterprise	Strategic objective	Gaztenpresa Foundation	Medium-high S and C
Reduce paper consumption by 8%	Strategic objective	Environment Committee	Medium M
Replace the electricity supply with one based solely on renewable sources.	Strategic objective	Environment Committee	Medium M
Development of a green financing product	Strategic objective	Business development	Medium M and C
Move ahead with the application of Socially Responsible Investment (SRI) criteria in the assets managed by the Manager, Treasury and in the concession of risks	Strategic objective	Business development Treasury Manager Risks	Medium-high C, S and M
Conduct an impact analysis of the direct and transitional risks of climate change.	Commitment undertaken with the Principles of Responsible Banking	CSR Committee	Medium-high S and M
Implement sustainable mobility measures for the workforce.	Sustainable mobility	Environment Committee	Medium M and P

2.3. CSR Roadmap

As a result of the deliberation and consultation process carried out with the stakeholders (see Materiality Analysis), the CSR Roadmap has been defined, which addresses the risks and opportunities that were identified as being the most important, and is the benchmark that LABORAL Kutxa uses to prioritise its activities relating to Social Responsibility.

	Prioritisation of areas for action	G. interest / scope
1	Excellence in quality of service: transparency, friendliness, avoidance of errors, speed and simplicity of the operation	Customers
2	Protection of privacy and the security of data and operations.	Customers
3	Reinforce the Entity's solvency and liquidity	Economic
4	Responsible management towards customers: explanation and sale of complex savings products, avoiding over-indebtedness of customers...	Customers
5	People management: gender equality, work-life balance, salary levels and intervals, etc.	People
6	CSR measures: against money laundering, arms financing control, gambling, pornography...	Customers / Society
7	Development in the digitalisation of channels (electronic banking, telephone banking, mobile banking)	Customers
8	Promoting equality between women and men	Society / people
9	Review and improvement of internal control mechanisms (management decisions, code of ethics, corruption, cost control).	Corporate Governance
10	Contribution to the economic and financial development of the business fabric: Financing agreements for companies, support for entrepreneurs, University...	Company
11	Socially responsible products and services	Customers / Society
12	Supplier management. Responsible purchasing criteria: purchase locally and take social and environmental criteria into account in addition to price.	Suppliers
13	Improve the communication with customers and other stakeholders	Customers
14	Control of the responsible activity of our suppliers: working conditions, occupational risks, payments to the Tax Authorities...	Suppliers / People
15	Fair balance between costs charged and interest paid. Mutual benefit.	Customers
16	Reduction in greenhouse gas emissions and carbon footprint	Environment
17	Environmental management: recycling, reduction in consumption and waste, selective collection...	Environment

2.4. LABORAL Kutxa's CSR Scorecard

The LABORAL Kutxa scorecard provides a global vision of the key indicators in the organisation with respect to the three aspects: economic, social and environmental.

Economic performance indicators (consolidated data):

Indicators	2018	2019
Profit after tax (€M)	124,173	127,364
Efficiency Index (%) (1)	61.93	61.00
Customer deposits (€M)	19,481	21,425
Customer credit (€M)	13,278	13,973
Solvency (%) (2)	18.76	20.17
Special Funds (€M)	1,059	954
% Doubtful Risks / Investment	4.46	3.54

(1) Efficiency Index: Administration Costs + Amortisation / Gross Margin.

(2) Total capital ratio (CET1) is used.

Social performance indicators:

Aspect / Indicator	2018	Year 2019
People		
Number of people active (LK + CLBS)	2,105	2,074
Training		
Training hours / total workforce	41.71	81.38
Training evaluation (1-10)	7.96	7.91
Health and Safety		
Absenteeism in %	3.85	3.80
Professional development		
Average employment index	2.4	2.36
Promotion: Increase in Structural Index	5.5	7.09

Aspect / Indicator	2018			Year 2019		
	Women	Men	%	Women	Men	%
Employment dynamics						
Rate of departures / turnover	7.5%	7.3%	8.4%	6.70%	6.76%	7.09%
Equality						
% Women members	48.7%			49.54%		
% Women managers / total managers	30.6%			31.97%		

No objectives are established regarding employment dynamics and equality. Nor is it broken down by region due to the reduced geographical scope.

Aspect / Indicator	2018	2019
Contribution. Funds (FEP and FSI) (thousand €)	21,037	23,437
Taxes paid (thousand €)	21,209	26,760
Gaztenpresa companies created	415	405

Environmental performance indicators:

Consumption of:	2018	2019
Advertising paper: Kg / Client	0.093	0.116
Internal paper (Kg / Client)	0.238	0.251
Water in m^3	7,447	10,898
Electricity (Kwh)	13,277,248	12,915,786
Toner cartridge: Units consumed	3,317	3,502
Diesel in litres	1,505	581
Kg waste managed (1)	158,950	162,283

(1) The objective is to manage 100% of the waste. Its volume depends each year on different circumstances.

2.5 Materiality Analysis

The 2014 Report describes in greater detail the process followed by the Entity for the construction of the first materiality matrix that made it possible to identify the information needs of the main stakeholders and to prioritise their demands.

In subsequent years, the information collected has been expanded, improving the interpretation of the needs and expectations of the different stakeholders with which the Entity interacts. In 2017 and in 2019, the methodology and the questionnaire were reviewed, comparing the results with those obtained by other competitors and adjusting them to the demands of the stakeholders.

The revised questionnaires have been used for the materiality analysis of this Report, having obtained information from:

- Customers (annual consultation): 43 companies, 417 self-employed workers and micro-enterprises, 45 customers and clients of personal banking and 163 KIDE clients (linked), in total **668**. They are clients of both LABORAL Kutxa and Lagun Aro.
- 14 supplier companies (biannual consultation),
- 109 workers (members, casual workers and CLBS; annual consultation),
- The biannual consultation with the members of the CSR Committee, whose opinions are representative of those of the Management, given the people involved.

The evolution over time of the materiality analyses reveals this:

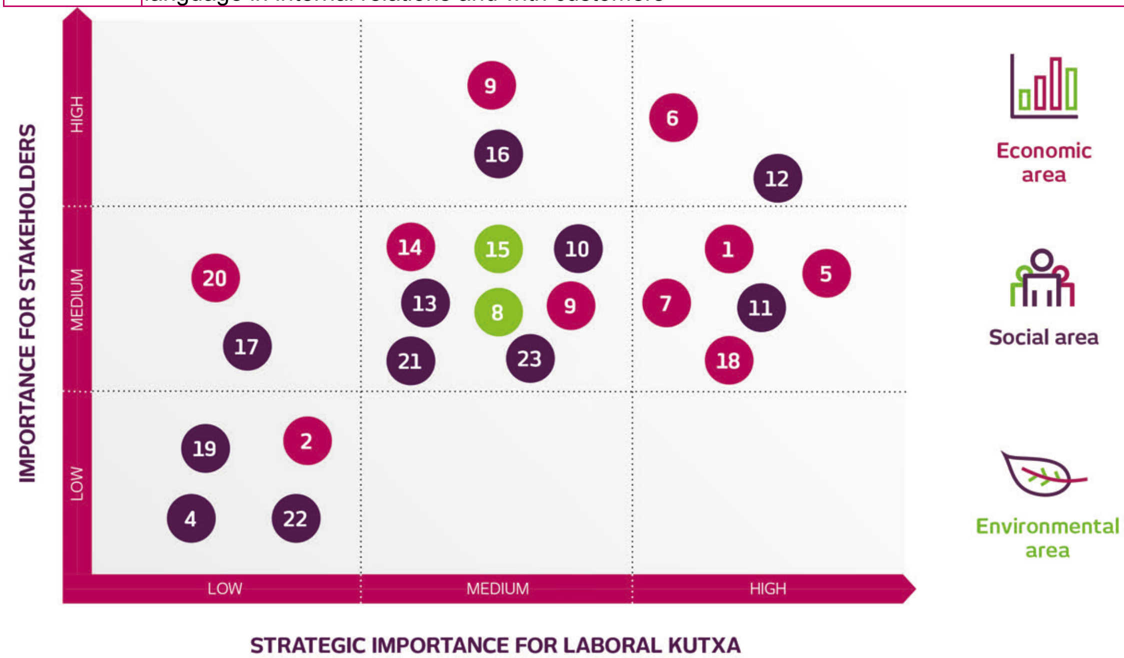
- It highlights the alignment between the prioritisation of the stakeholders and that of LABORAL Kutxa. 61% of the assessed aspects are in the same quadrant of importance and there are no aspects in the high-low / low-high quadrants.
- The results are very consistent, with the prioritised aspects and those considered less material varying very little over time.
- Awareness is progressively increasing in aspects such as environmental care and supplier management, although in both cases their materiality is still considered to be medium.

In the materiality analysis there are two elements of which the internal and external relevance is classified as minor, but which are considered to be at the core of our mission and therefore cannot be overlooked as areas of preferential attention. These are the support to the cooperatives of MONDRAGON and the contribution to the promotion of the Basque language. We understand that one reason for the low demand expressed for both elements is that their expectations are already well covered, so there is no need for additional initiatives.

Materiality Matrix 2019

Mater.	Aspect
HIGH	**6-**Excellence in service quality: reduce errors and improve operations
	12-Protection of privacy and operational and data security
MEDIUM-HIGH	**1-**Strengthen the solvency and liquidity of the Entity
	16-Promotion of equality between women and men
	9- CSR measures: against money laundering, control of financing to arms, gambling, pornography,...
	11- People management: gender equality, conciliation, salary levels and intervals, etc.
	5- Responsible management with clients: explanation and sale of complex savings products, avoid over-indebtedness of clients...
	7-Development in the digitalisation of the channels (electronic, telephone, mobile banking)
	18-Review and improve the internal control mechanisms (administrative decisions, money laundering, ethical code, corruption, cost control).
MEDIUM	**15-** Environmental management: recycling, reduction of consumption and waste, selective collection...
	3- Contribution to the economic and financial development of the business fabric: Business financing agreements, support for entrepreneurs, University...
	10-Socially responsible products and services
	13-Improve communication with our clients and other stakeholders

	21- Control of the responsible performance of our suppliers: working conditions, occupational hazards, payments to the Tax Office...
	23- Supplier Management. Responsible purchasing criteria: local purchasing and taking into account social and environmental criteria as well as the price.
	8-Reduction of the emission of greenhouse gases and carbon footprint
	14- Fair balance in costs charged and interest paid. Mutual benefit.
MEDIUM-LOW	**17-** Social action: sponsorship, contributions to NGOs, social activities, development cooperation...
	20-Flexibility in the recovery and refinancing of unpaid debts
LOW	**22-**Contribution to the Sustainable Development Goals (SDGs) of the 2030 Agenda of the United Nations.
	2-Support the cooperatives of Mondragon
	4-Contribute to the financial education of clients and society
	19-Promotion of the Basque language and culture, as well as promoting the use of the Basque language in internal relations and with customers



2.6. United Nations Global Compact and Sustainable Development Goals (SDGs)

Each year LABORAL Kutxa has carried out, within its acquired commitment, a statement of the annual progress on the Principles of the Global Compact . Since 2018, the progress achieved on the Sustainable Development Goals (SDGs) and, this year, on the UN Principles of Responsible Banking has been added to this statement.

The main aspects that LABORAL Kutxa has worked on in 2019, as well as the degree of progress made, are set out in the Commitments and Achievements section in the second part of this Report. Therefore, the following table analyses which of these aspects are in line with the Principles of the Global Compact, the Sustainable Development Goals and the Principles of Responsible Banking:

CSR objectives and challenges assumed in the 2019 CSR Report	Global Compact	SDG	Responsible Banking Principles
Carry out the merger of offices to increase efficiency while avoiding the financial exclusion of small communities.	Principle 1	Objectives 1, 3 and 8	Principles 1, 2, 3 and 4
Deployment of the III Berdintasuna Plan - Equality and development of the IV.	Principles 1 and 6	Objective 5	Principles 1 and 4
Use of digitalisation to reduce paper consumption and to create a personalised distance relationship	Principle 9	Objectives 13 and 15	Principles 1, 2 and 3
Linguistic standardisation: Implementation of the Strategic Plan for the Basque Country 2016-2019	No principle applies	Objective 11	Principles 1 and 4
Implementation of contracting procedures and systems with supplier companies	Principles 1 to 5	Objectives 1, 3, 5, 6, 8, 10, 12 and 16	Principles 1, 4, 5 and 6
Development of the digital competences of the workforce	Principle 9	Objectives 8, 9 and 12	Principle 4
Implement the health plan - Zainduz for all people.	Principles 1 and 8	Objectives 3, 8, 11, 12 and 17	Principles 1 and 4
Maintain positions of excellence in the management of customer relations	Principle 1	Goal 8	Principles 3 and 6
Development of management systems that promote a constructive and collaborative culture, with self-responsibility and continuous learning	Principles 1, 6 and 10	Objectives 5, 8 and 17	Principles 1, 5 and 6
Renewal of EIF guarantee agreements for microcredits and innovative companies	Principle 1	Objectives 1, 5, 8, 9 and 10	Principles 1 and 3
Accompaniment to 425 entrepreneurs to launch their microenterprise	Principle 1	Objectives 1, 5, 8, 9 and 10	Principles 1, 2 and 3
Implement Green MIFID	Principles 1 to 10	All objectives	Principles 3 and 6
Development of multi-channel customer relations, payment methods and direct marketing	Principle 9	Objectives 8, 9 and 12	Principle 3
Continue to expand the coverage of Socially Responsible Investment	All the principles	All objectives	All the Beginning
Support for the creation of companies and consolidation of existing ones through MONDRAGÓN	Principles 1, 3 and 6	Objectives 5, 8, 9, 10 and 16	Principles 1 and 4
Implement BIDEAN and ensure its sustainability	Principles 7, 8 and 9	Objectives 8, 9 and 12	Principles 4 and 5
Review of market abuse procedures	Principle 10	Goal 16	Principles 5 and 6
Financial education plan.	Principle 1	Objectives 4, 12 and 17	Principles 1, 3 and 4
Formation of the Data Protection Committee	Principle 1	Objectives 8, 9, 12 and 16	All the Beginning

Sustainable Development Goals (SDGs): Ongoing activities

The main actions that LABORAL Kutxa is developing and which are explained in this Report linked to the aspects considered as priorities of the Sustainable Development Goals (SDGs) and the United Nations 2030 Agenda are summarised below:

- **Obj. 5 Gender equality** : Prepared the IV LK Equality Plan; Equality objectives of the Strategic Plan.
- **Obj. 8 Decent work and economic growth** : Gaztenpresa; Recruitment table and supplier management application; Zainduz Health Plan, Financial Education; Sustainable mobility.
- **Obj. 9 Industry, innovation and infrastructure** : Different improvements in digitalisation; PDSI-2; Data protection committee.
- **Obj. 10 Reduction of inequalities**: Green MiFID; Review of market abuse control procedures; Socially Responsible Investment.
- **Obj. 17 Alliances to achieve the Objectives:** Brand positioning; Renewal of the EIF InnovFin and EaSI Social agreements; UN Responsible Banking Principles.

3. MANAGEMENT OFSTAKEHOLDERS

3.1. Our relationship with clients

3.1.1. Management approach

The policy of the LABORAL Kutxa Group in its relationship with customers and responsibility for products has been included in previous reports and in the responsible management approach. The importance given to this area is reflected in the existence of a Department whose basic function is the application of this approach. The clientele is segmented between Private clients, Self-employed clients, Business clients and Company clients. There is a specific management process for each of these segments and a commercial offer tailored to their needs and expectations.

3.1.2. Main customer figures

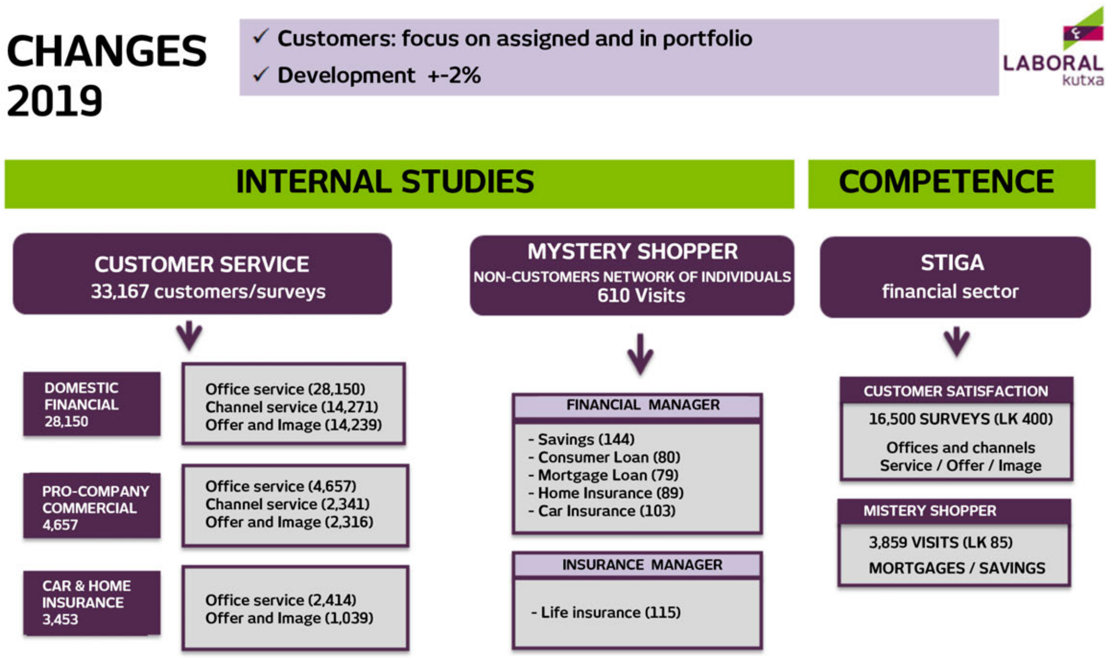
The following table shows the evolution of the Group's clientele. The database is updated annually, which means that inactive customers are removed from the database

Geographic Area	Number of clients		%
	2018	2019	
Araba	141,839	136,658	12.17
Aragon, Catalonia and La Rioja	72,149	72,176	6.43
Asturias and Cantabria	32,623	33,041	2.94
Bizkaia	350,029	348,540	31.05
Castille and Leon	125,232	125,397	11.17
Gipuzkoa	280,056	260,435	23.20
Madrid	18,319	18,968	1.69
Navarra	119,990	119,848	10.68
Headquarters	7,568	7,585	0.68
Total Kutxa LABOR	**1,147,805**	**1,122,648**	**100%**
Private Customers (%)	87.47%	87.14%	
Autonomous Customers (%)	8.3%	8.5%	
Business Customers (%)	3.27%	3.41%	
Business Customers (%)	0.87%	0.95%	

3.1.3. Dialogue with the clientele

As in previous years, in 2019 an effort has been made to maintain a dialogue with the customers in order to meet expectations and demands regarding financial and insurance products in order to undertake new improvement actions. In addition, these mechanisms are integrated into a *comprehensive quality process*, the permanent objective of which is that the quality of customer service and care, in the various relationship channels, be maintained as a differential advantage over competitors.

The following diagram describes the numerous communication mechanisms in place:



The results compared to other banking and insurance competitors are favourable. Some of the most representative are included in the following tables.

Satisfaction of banking customers (score 1 to 10)	2018	2019
Satisfaction among preferential customers	7.24	7.21
Recommendation level	6.97	7.01

Source: Tracking study of the image and brand of LABORAL Kutxa. The area is the Basque Country and Navarre. Ikerfel

Comparative benchmarking with the banking sector. Potential customers (score 1 to 10)	2018	Differential with sector. 2018	2019	Differential with sector. 2019
Sectoral Objective Quality Study (EQUOS-Stiga)	7.59	+0.39	7.75	+ 0.39
Satisfaction of banking customers (BMKS FIN–Stiga)	7.83	+0.38	7.73	+ 0.25

Lagun Aro. Benchmarking in the insurance sector Satisfaction of insurance brokers (score 1 to 10)	2018	2019
Overall satisfaction with the company	8.1	7.4
Insurance Market	8.1	7.3

Source: ICEA continuous satisfaction study.

Lagun Aro is the second entity in the study in net recommendations in reports with an NPS of 26.5.

Based on these dialogue mechanisms and the expectations detected in the customers, improvement actions are carried out to increase their satisfaction with the service received.
LABORAL Kutxa Customer Service has responded since 1994 to the queries, complaints and claims that clients make. The activity in the Service has decreased by 28.05% with respect to the previous year, mainly due to the lower number of complaints and claims related to mortgage loan formalisation expenses and also to the decrease in the cases related to banking activity.

The results of this Service are:

Customer Service	2018	2019
Number of cases opened	**9,121**	**6,563**
Written: brochure / letter	7,456	5,228
Internet/Telephone	1,240	972
Public bodies: OMIC / Regional Governments	336	341
Others	89	22

Following preparation of the 2018 CSR Report, as has become customary in recent years, a communication campaign was launched in which the Report's Executive Summary was sent to the most closely linked customers. Along with this information, a questionnaire was attached, by means of which those who wanted could contribute their opinion on Corporate Social Responsibility. Four different mailings were sent: to company customers (6,755 customers), self-employed and micro-business customers (82,409), private individual customers from Personal Banking (14,684) and to KIDE private customers (156,437). In total **260,285** customers of which 30% read the mail.

In total there were 668 responses. The main **results and conclusions** of this **dialogue** process are detailed below:

When asked if their company prepares a CSR report, 23% currently prepare a CSR report, 27% plan to do so and 50% say it is not among their priorities.

Questionnaire	No. of mailings	No. of replies	Assessment	
	2019	2019	2018	2019
Company customers	6,755	43	7.4	7.8
Self-employed and micro-businesses	82,409	417	7.6	7.6
Private individuals from Personal Banking	14,684	45	8.7	8.7
KIDE private customers	156,437	163	7.9	8.2
Total	260,285	668	7.9	8,075

When company clients were asked if they produced a CSR report, 23% currently did so, 27% planned to do so and 50% said it was not among their priorities.

3.1.4. Responsible management with customers and excellence in quality of service

Responsible management with the LABORAL Kutxa customers focuses mainly on the sale of complex savings products. Excellence in the quality of service and contact with the customer are aspects identified as being of highest importance in our materiality matrix.

- ✓ In 2019, financing has been an area of intense work. Specifically, in May 2019 we started the accreditation process in the Law on Real Estate Credit Contracts (LCCI) and 1,589 people have obtained the APT category required by the Bank of Spain (94% of those affected).
- ✓ In the same line of responsible management towards clients, in order to facilitate business financing, a particularly relevant line of action is the collaboration with the European Investment Fund (EIF) of the European Investment Bank (EIB). During 2019, three agreements have been in force whereby the EIF guarantees a part of the risk assumed by LABORAL Kutxa, so that the financing can be carried out under more favourable price conditions and guarantees for those companies included in the agreements:

- European Union Program for Employment and Social Innovation-EaSI, for job creation via microcredits up to €25,000, aimed at entrepreneurs. Signed in 2015 for an amount of €75M and renewed in March 2018.
- InnovFin SME Guarantee Facility to facilitate innovation in SMEs and small and medium capitalisation companies. Signed in 2016 for an amount of €100M and renewed in July 2018.
- Specific EaSI programme for the promotion of social economy companies. Renewed in October 2019 for another 2 and a half years, and an amount of €50M, with the amount of the operations being able to reach up to €500,000.

✓ Covering the areas of customer relations management (transparency, kindness, inquiry of the needs and active listening, clarity in the explanations, ...) and that related to customer service in aspects of quality, personal service, absence of errors, etc., the most important initiative is the "Integrated Quality Management Process". A process that seeks excellence in compliance with the measurement parameters of the external (towards customers) and internal (from the Central Services to its internal customers, the Branches) service.

✓ A key element in the quality of advice and relations is the speed of adaptation to the unstoppable digital transformation. An adequate user experience in a digital banking world requires a personalised, but omni-channel relationship between manager and client, an objective that LABORAL Kutxa seeks with the deployment of the *Onenak 4.0* project in its offices.

In relation to transparency and clarity of information

✓ LABORAL Kutxa has been a member of Autocontrol since 29 July 2008, an association with the objective of contributing to advertising being a particularly useful instrument in the economic process, ensuring respect for advertising ethics and the rights of consumers, with the exclusion of the defence of personal interests. In 2019 LABORAL Kutxa made the following enquiries to Autocontrol:

Preliminary advice	2018	2019
Positive	319	370
With modifications	52	126
Negative	1	0
TOTAL	**372**	**496**
Professional ethics consultations	69	65

✓ All the information on main products/services (Savings, cards, Mortgages, Loans, Plans, Funds, Insurance, Services, Online banking) , as well as social networks (Blog, Facebook, Twitter, YouTube, etc.) is available from the home page of our website Laborkutxa.com, as well as on the Lagun Aro website.

Another area related to responsible management with customers is the problem of over-indebtedness. Its importance according to the materiality matrix has been reduced, in parallel with the improvement of the economic situation and the greater normalisation of unemployment rates. Given its high impact on the people affected, but also in order to ensure transparency in an area that has generated a significant social and media impact, our actions in relation to customers with payment difficulties, especially on their mortgages, are described below.

Within the policy of personalised negotiation in cases where customers have difficulties in paying for their homes, the first step is to offer the customer (if they meet the requirements) the *Code of Good Practices* which LABORAL Kutxa joined in 2012, providing a second chance mechanism, a reduction in the financial burden and other measures.

Code of good practice	2018	2019
Applications	56	67
Denied	44	53
Approved	12	14

The conditions set out in this Decree have been applied to the 14 approved operations, which also include tax benefits. Of these, 12 have been signed.

There are also 31 homes assigned, out of the 35 available, to the Social Housing Fund.

The operations to which this Code does not apply, because they do not meet any of the requirements laid down by law, have followed the procedures and protocols of LABORAL Kutxa. These, in addition to restructuring of the debts, also include dation in payment as an alternative for sharing the loss of value of the mortgaged property, as well as agreements for the former owner's right to remain, despite the judicial awarding of the property to LABORAL Kutxa.

Notwithstanding this high level of agreements, the Bank has been awarded 39 homes (26 of them non-habitual), in some cases applying dation in payment agreements and in others as a result of judicial enforcement. Even after the court ruling in the latter cases, it may be possible to apply for a stay of execution on the disposal of the former home. In 1 case, the right to remain in the property was recognised in the case of a person who ceased to be the owner after the enforcement.

Floor clauses

In January 2017, an extrajudicial procedure was regulated to resolve claims related to floor clauses in mortgage contracts for home purchases. Based on consumer protection, these clauses were declared abusive, and therefore void, not in themselves, but because of the lack of transparency in their inclusion in contracts. Thus, channels were established, regulated by RDL 1/2017, to make it easier for customers to reach out-of-court settlements in order to eliminate the effect of these clauses.

LABORAL Kutxa informed its customers of a voluntary claim system prior to instituting legal proceedings. Customers who have not wanted to use this additional system have been able to go to the SAC, although the number has been small.

The cumulative volumes of claims received are the following:

Extrajudicial claims for floor clauses. RDL 1/2017	**As at Dec 2018**	**As at Dec 2019**
- Rejected (RDL not applicable)	1,008	1,089
- Accepted	449	465
- Denied	3,337	3,427
- Being handled	25	24
TOTAL incoming	4,819	5,005

The most frequent reason for denying the claim is that the Entity considers it to be proven that in this particular case the transparency requirements were met. As can be seen, in 2019 the number of claims received was much lower than the previous two years.

LABORAL Kutxa also has a regular practice of consulting its customers on the different aspects of its activity. Within the usual questionnaire there are two questions directly related to their perception of LABORAL Kutxa as a socially responsible financial institution. In 2019, 2,400 surveys were conducted asking: which organisations do you think stand out in the field of…? (Multiple and spontaneous answers). The result was:

- With honest and responsible management, which can be trusted: 20% of respondents name LABORAL Kutxa.
- National entity, committed to society and local development: 35%.

Customer Service	2018	2019
Total cases	**9,121**	**6,563**
Nature of the cases		
Complaints	7,506	5,073
Claims	1,286	1,319
Consultations	5	13
Suggestions	9	12
Letters of congratulations / gratitude	-	2
Sundry petitions, others	315	144

3.1.5. Protection of privacy and the security of data and operations.

Personal data.

In compliance with Regulation 2016/679, dated 27 April 2016, regarding the protection of natural persons in relation to the processing of personal data and with Organic Law 3/2018, dated 5 December, on the Protection of Personal Data, LABOR Kutxa must apply appropriate technical and organisational measures in order to guarantee and be able to demonstrate that the processing is in accordance with such regulations.

To this end, LABORAL Kutxa has approved a "Personal Data Protection Manual" and has appointed a Data Protection Officer in order to comply with the following data protection principles, by virtue of which personal data must be:

a) treated in a lawful, honest and transparent manner in relation to the data subject *(“lawfulness, honesty and transparency”)*

b) collected for specific, explicit and legitimate purposes, and not subsequently processed in a manner incompatible with such purposes *("limitation of purpose")*

c) appropriate, relevant and limited to what is necessary in relation to the purposes for which they are processed *("data minimisation"*)

d) accurate and, where necessary, updated *("accuracy")*

e) held in a form that permits identification of the data subjects for no longer than is necessary for the purposes of processing the personal data *(“limitation of the storage period”*)

f) processed in a way that ensures adequate security of personal data, including protection against unauthorised or unlawful processing and accidental loss, destruction or damage, through the use of appropriate technical or organisational measures *(“integrity and confidentiality”)*

For the implementation and continuous improvement of the obligations described above, LABORAL Kutxa must carry out a biannual external audit.

Comprehensive Security Master Plan (PDSI)

In 2019, we continued and addressed new security initiatives, included in the plan that was approved in 2016. During the year, the Entity increased its security capabilities in the area of Governance (dissemination of the Security Standards Body, continuous training activities in cyber security, ongoing developments in regulatory compliance, etc.), Protection (developing its third party management model, improving the management of privileged user identities, updating guides to improve the secure development of *software* , etc.), surveillance (SOC/SIEM service, cyber-intelligence, hacking exercises, etc.) and Resilience (updating incident response procedures, implementing a Business Continuity Management System, etc.)

In addition, at the end of the year, LABORAL Kutxa carried out a new security assessment in order to evaluate its level of maturity based on a reference framework, with the aim of identifying its strengths and weaknesses, comparing it with other similar entities and having sufficient information to make decisions, so as to be able to define a new comprehensive security plan for the next 3 years, in line with the entity's strategy.

3.1.6. Responsible products and services

Social or sustainability criteria in credit policy are present in the following products:

- *Micro-loans*: See the information regarding Gaztenpresa. In 2019 the agreement with EIF (the European Investment Fund, an agency of the EIB - European Investment Bank) was renewed with the EaSI programme - European Programme for Employment and Social Innovation. With the support of this European programme, the conditions required for both entrepreneurs and micro-enterprises are further enhanced by increasing their access to micro-credits.
- Loans for social economy companies: Through the EASI line, providing loans and credit accounts of up to €500,000 to companies with a turnover of less than €30 million. In total, LABORAL Kutxa will allocate 50 million.
- Secured Cards: Cards that have favourable conditions such as Accident Insurance with Lagun Aro Insurance. For the Gold card, Travel assistance with Caser.
- Personal loans: There are 0% APR loans for special situations and salary advances. There are also loans aimed at young people to finance studies (material, tuition, etc.), for example, in 2019, agreements with: AEK, University of Navarra, Public University of Navarra, MONDRAGON Unib. and MONDRAGON Lingua.
- Agreements and Arrangements: with *Erkide (financial advantages for its associate cooperative members), with FCTC (Catalan Federation of Workers' Cooperatives), with CEPES for the financing of capital contributions and financial advantages for cooperative members.*
- *Agreements and arrangements with different companies such as SEA Empresas Alavesas, ELKARGI Mutual Guarantee Society, LUZARO Financial Credit Establishment and SENDOTU.*

Agreements and partnerships with Public Authorities

As has been explained throughout this Report, LABORAL Kutxa actively works with the various Public Authorities to open up lines of financing under preferential conditions for entrepreneurs, self-employed people and companies, or for the refurbishment of homes, or by providing finance to SMEs under better conditions through agreements or lines of credit with various Mutual Guarantee Societies (MGS). Some of them can be seen on our website:

- For companies: https://www.laboralkutxa.com/es/empresas/financiacion/convenios
- Business and professionals: https://www.laboralkutxa.com/es/pro-negocios-y-profesionales/financiacion/convenios
- Social economy companies: https://www.laboralkutxa.com/es/empresas/financiacion/convenios/easi-economia-social
- Subsidies: https://www.laboralkutxa.com/es/pro-negocios-y-profesionales/apoyos-para-tu-negocio/convenios

Affinity cards

LABORAL Kutxa assigns a portion of the income obtained from the use made by customers of Affinity cards for their purchases, to: Medicus Mundi, Caritas and the Confederation of Ikastolas. The amount of the yearly assignment is:

- For each card holder at the end of the year: 2.5 euro / year
- 1 euro / year per card beneficiary.
- For purchase invoices: 20% of the profits obtained.

Amount donated for AFINITY Cards	2018	2019
Total invoices (euros)	45,908,906	46,256,939
Channelled social benefit (euros)	53,117	52,670
• Medicus Mundi	23,743	23,494
• Caritas	3,324	3,311
• Ikastolak	26,050	25,864

Donations for international cooperation projects

The LABORAL Kutxa Super 55 Passbook has a points* programme, for income and balances, that customers can exchange for gifts or donations for projects in developing countries. The projects and amounts assigned are the following:

Amount donated by customers (euros) per project	2018	2019
Zaporeak. Project: "Help in the field of nutrition". Cooking and hospitality school in the Ethiopian town of Wukro and the feeding of refugees on the Greek island of Chios.	2,606	3,572
Mundukide Fundazioa. Project: "Open the tap. Mozambique needs motorised pumps for irrigation."	2,530	4,436
Mundubat. "Support for the right to health of the Saharawi people."	3,619	-
Save the children. Project: "Invest in education to fight child poverty"	5,564	-
Alboan. Project: "Against discrimination and exclusion in India". Implementation of projects that promote the defence of rights and access to education for the Dalit people.	-	3,283
Medicus Mundi. Project: "Promoting sexual and reproductive rights." Support programmes, in Peru and the D.R. of the Congo, that promote genuine equality between men and women, sex education and the commitment of public institutions to these rights.	-	2,543
Total amount (with VAT included) donated	**14,319**	**13,834**

NGO insurance

LABORAL Kutxa has an Insurance aimed exclusively at NGOs that provides cover and special conditions to these organisations via two policies:

- Accident policy. It covers volunteers for accidents occurring during the exercise of the NGO's own activities, including the risk "in itinere" (necessary travel).
- Civil liability policy. It covers claims for damages to third parties or to property that does not belong to the organisation, resulting from the usual activities carried out by the volunteers. In 2019, the insurance covered 46 associations, with 725 insured parties.

Support for the creation of a company companies. Mondragon Group

Apart from financing through credit investment, LABORAL Kutxa supports the development of Mondragon cooperatives through the contribution of funds from their profits, with the aim of creating new jobs and consolidating existing ones. These contributions are made to:

- *MONDRAGÓN Inversiones*, which is in charge of partially financing Cooperative development projects, both in Spain and abroad.
- *MONDRAGON S. COOP., Corporate Group Centre.*
- *MONDRAGON Foundation*, in order to, among other destinations, finance the development of the 15 research centres promoted by the Cooperatives.

Mondragon Group Contributions Thousands of Euros	2018	2019
Contribution to MONDRAGON Investments	6,014	6,639
Contribution to MONDRAGON S. Coop.	4,338	4,429
Contribution to MONDRAGON Foundation	9,708	10,718
Total contributions	**20,060**	**21,786**
Investment in MONDRAGON Companies (1)	702,020	608,000

(1) The investment included is: Current, Structural and Firm.

Socially responsible investment

Socially responsible investment (SRI) is one that applies Environmental, Social and corporate Governance criteria (ESG criteria) when selecting investment or financing projects. 2019 was a year in which SRI gained great strength within the financial sector, with numerous initiatives and proposals for making progress, both from the industry and from regulators.

LABORAL Kutxa has been working in this field for a number of years, with exclusion criteria in place to prevent investment or funding of activities that are contrary to our principles. These exclusion criteria affect aspects such as gambling, pornography, tobacco, weapons, coal…

As part of the Strategic Plan developed in 2019 for 2020-2022, an objective has been established to apply SRI criteria to 100% of the assets managed by the Fund/Plan Manager, Treasury and in the concession of risks. In the same way, the aim is to advance and deepen the criteria applied, moving from the current exclusion criteria to other more advanced concepts.

In 2019, the responsible Investment Fund, *LABORAL Kutxa Konpromiso, FI*, was maintained, with an ethical and charitable approach, since its investments apply controls by measuring the application of environmental, social and good corporate governance criteria. It is charitable because LABORAL Kutxa channels a significant part of the management fee it charges its customers to three NGOs from among which the customer can choose.

Contributions	2018	2019
MEDICOS MUNDI	€11,866.33	18,533.45
MUNDUKIDE	€8,883.89	14,490.74
CARITAS	€8,566.60	€11,130.57
TOTAL	**€29,316.82**	**€44,154.77**

Meanwhile, in the area of corporate investment, both in that managed by the Treasury and Capital Markets Department and in that administered by Pension and Investment Fund Managers, we are incorporating non-financial information into the processes of selecting asset issuers in which to invest.

Thirdly, in relation to credit investment in companies, since 2017 there has been a procedure for requiring additional non-financial information from companies identified as having social risks, thus extending the system previously applied to potentially problematic companies from an environmental point of view. In 2018 it was decided to reduce the financing to 1 client company that works in the field of online gambling.

Environmentally responsible products and services

LABORAL Kutxa, as a financial entity focused on a specific geographical area, does not foresee significant impacts for the organisation, either risks or opportunities, in the short term due to climate change. Also, in accordance with its strategy of contributing to a better environment, it has products and services to help slow down climate change.

Electronic customer delivery service

The LABORAL Kutxa Posta-mail for sending statements and receipts to customers by e-mail continues to grow significantly, helping to reduce paper consumption. The annual objective is always to increase the number of users from the previous year and, to this end, the Network constantly explains this service. The section on **Our relationship with the environment** in this Report shows the trend in the number and % of users.

Credits for renewable energies

LABORAL Kutxa is a financial entity and its activity has no direct or significant relationship with climate change. Company financing or granting of credits in the field of renewable energies or similar has evolved as follows:

	2018	2019
Loans provided (thousands of €)	18,412	20,616

Accessibility to financial services

Small towns

During the rationalisation process of the commercial network that has been carried out in recent years in response to the new challenges of the financial sector, an effort is being made to not financially exclude places with relatively small populations. The aim is to not cease serving those rural or sparsely populated areas where we have been present for many years. Therefore, the closure of offices is avoided, despite their reduced profitability, by implementing measures such as opening on certain days of the week.

Architectural barriers

In all the intervention projects undertaken in offices, the objective is to improve accessibility, in terms of both access and interior layout. This eliminates existing architectural barriers and complies with the Accessibility Standard. As these actions have been taking place for many years, there are currently very few workplaces that have accessibility problems. In 2019, the renovation work started at the Hondarribia office.

Access via internet and mobile phone. Multi-channel banking

Developments in 2019:

- Improvement/expansion of POS information in online banking.
- New online portal for the self-employed: Portal with exclusive services for self-employed workers, grouped under a single section.
- Insurance:
  - Pre-priced home insurance: The client receives the price of the home insurance, by providing the postal address and the square meters registered.
  - Lagun Aro Postanet: Communications from Lagun Aro Insurance are listed in the correspondence section of the Online Banking platform.
  - Insurance Postamail: We started sending insurance communications by email.
  - Home, business and car insurance claims portal: option to manage and track progress through SMS messages. Push and online banking.
- Contracting of retirement/pension plans in online banking.
- New option to temporarily activate and deactivate the cards.
- LKpay. Complete change of design and biometric access with fingerprint and facial recognition.
- Multi-channel signature: Possibility of initiating the contracting of a current account at a branch and deferring the signature of the participants to other branches or to the Online Banking platform.
- Contact the manager: This operation allows you to contact the manager from the new Online Banking platform, send documents to be signed, make video calls or write.

- Change of signature system for private individuals and self-employed workers: The the method for signing and accessing online banking has been changed due to PSD2. Signatures are completed by means of an SMS sent to the customer's mobile phone. Also, in order to gain access, every 90 days the customer is asked to enter the codes sent by SMS.
- Alerts. Notice of a regular contribution to a plan not made due to lack of balance.

Financial culture

LABORAL Kutxa has continued to use social networks to create financial culture and boost knowledge regarding cooperativism. For example, 67 articles of general interest have been included in the Entity's blog (blog.LABORALkutxa.com), 21 of which have focused on helping to improve the culture and knowledge of current financial affairs. In this way, with a simple and accessible format, contents of financial culture are alternated with others more related to social responsibility, such as: ethical finances, insurance obligations, tax news, how to set up a company, etc.

During 2019, a **Pro Newsletter** has been sent four times (March, May, October and November). This is an information bulletin in electronic format for Pro and micro-business clients in the Basque Autonomous Community and Navarre (more than 60,000). This action is part of the **Consulting Pro** free guidance service to assist clients in the management of their business, offering information of special interest (grants and subsidies, tax and legal news, sales techniques, etc.) for the self-employed and other professionals.
This Newsletter highlights some of the most relevant and recent content of the Consulting Pro website, which offers content such as news, articles of interest, management tools, and information on events, grants and subsidies...
952 queries have been answered by the Consulting Pro service in 2019, made either in person, by telephone (free hotline 900 100 240), or through the form available on the website.
Pro Seminars are training actions aimed at owners of SMEs and the self-employed. 16 seminars were held in 2019. The main ones were held in the capitals of the Basque Country and Navarra. The topics covered were:

- **April**: **What does it mean to be part of the Self-Employed Social Security Regime? practical matters** (239 attendees / 4 sessions)
- **June: Grants and subsidies for the self-employed and small businesses** (150 attendees / 4 sessions).
- **October: Enhance your company's communication with LinkedIn** (138 attendees / 4 sessions).
- **December: Understand the taxes you pay and plan for the latest income tax rulings** (126 attendees / 4 sessions).

Another four seminars were held in Pamplona and the surrounding area with Navarra trade associations, attended by 50 people, bringing the total number of people attending seminars in 2019 to 853.

- Sakana Merchants Association - Etxarri Town Council: “How to ensure your online presence without dying in the process”
- Association of Commerce, Hotel & Catering and Service Businesses from the Pamplona area - Design Thinking Workshop
- Ansoain Merchants Association - Window dressing for retailers

A video is prepared on a monthly basis (in collaboration with AFI, International Financial Analysts) on the economic climate and the situation of the financial markets. This video is emailed to the Personal and Premium Banking customers and uploaded to CLNet.

Support for internationalisation

Throughout 2018, as part of LABORAL Kutxa's strategy of providing a global service to its corporate customers and supporting them in their search for new markets, the international agreements signed in recent years have been continued with a view to providing a service to customers. The agreements were mainly signed with cooperative organisations that share the philosophy of LABORAL Kutxa:

- National Cooperative Bank (USA).
- Crédit Coopératif (France).
- Raiffeisen Bank International (Austria).
- Banorte (Mexico).
- BMCE Banque Marocaine de Commerce extérieur

3.2. Our relationship with the workforce

3.2.1. Management approach

In relation to the direct activity of LABORAL Kutxa with respect to its own workers, the legal status of co-operative is an ambitious development of the inspiring principles of the *Universal Declaration of Human Rights,* namely that all human beings are equal in dignity and in rights.

Indeed, the co-operative method implies that the people who work in the company are partners with equal rights and obligations, regardless of their knowledge or status in the hierarchy. Requiring all people to share rights and obligations, as they all share in the risks and rewards of the business.

The concept of cooperation also extends to a commitment to our society. We are a *Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society.*

In the area of people, the most significant risks linked to non-compliance with human rights are related to corruption and harassment at work.

- With respect to corruption, see Corporate Governance in Section 1.
- With regard to harassment in the workplace, it should be noted that this is a problem with a low quantitative incidence, but a potentially serious effect on the people who might be involved in a situation of this kind. In the procedures, there is a *Protocol for action in cases of harassment at work,* updated on 31/01/2015. The organisation incorporates an *Investigation Committee,* which has a *specific complaints channel*. This protocol includes situations of *sexual and gender* harassment *(known as mobbing).* There have been no complaints or enquiries in 2019 and 2018 concerning the aforementioned complaints channel.

The financial activity we carry out, the geographical scope of our activities and the ownership structure make it impossible for threats of violation of the provisions of the fundamental conventions of the International Labour Organisation to occur.

Lagun Aro also has a procedure for managing conflict, harassment and violence at work. There have been no complaints under this Procedure. The Protocol against sexual harassment and harassment based on sex in the workplace has been defined and approved within the framework of the 2nd Equality Plan.

3.2.2. Main magnitudes of the workforce

Indicators concerning the people in the Group, both overall and according to different categories (gender, age, etc.) are available in section 4. Other magnitudes.

3.2.3. Dialogue with the workforce

As a credit cooperative, there are many channels for dialogue with people:

- ✓ The Internal Customer Satisfaction Survey (ESCI) was carried out so that the business network could assess the quality of the services provided by Central Services, make suggestions for improvement and provide any comments it deemed appropriate. The questionnaire was sent to 516 people and there was a response rate of 61.8%. As a result of the quantitative and qualitative assessments obtained from the survey, numerous improvement measures have been implemented.
- ✓ Internal Suggestions System. From 2017 to the end of 2019, 1,038 employee contributions were received, of which 126 (12.14%) were implemented.
- ✓ Participation and decision-making capacity in the basic governing bodies: Ordinary and Extraordinary Meetings and Governing Board, and in the preparation of Strategic and Management Plans.
- ✓ Activity of the Social Council, with extensive negotiation and decision-making capacities.
- ✓ An appearance by the Chairperson and the Director-General before everyone in geographical groups, in order to share the assessment of the situation and the measures being taken. Here, everybody can intervene by making comments or requesting the clarifications they consider appropriate.
- ✓ Staff meeting system: "Giltza-Collaborators Meeting" between managers and their teams.

Collective negotiation

The Cooperative Credit Union Collective Bargaining Agreement is the general framework of reference, although, in 1996 LABORAL Kutxa adopted a standard for Company Collective Bargaining, through which a specific Collective Bargaining model was established.

Collective bargaining is the process by which the employment and working conditions of all the people in LABORAL Kutxa (partners and employees) and the company guarantees that ensure its application are established. The result of this process is the set of rules and procedures that regulate the general conditions of work of 100% of the people at LABORAL Kutxa and bind the parties (the Board of Directors and the Social Council) and all persons.

In addition to the usual matters concerning compensation for expenses, schedules, etc., which are negotiated each year, agreements have been reached in 2019 on the following matters:

- Paid and unpaid leave.
- Social benefits

Like every year, at the end of the annual negotiation process, both parties exchanged the list of points to be negotiated in 2020.

Seguros Lagun Aro maintains a close relationship with the Legal Representation of Workers (R.L.T.) with whom the Company Statutory Agreement is negotiated. In 2018, a new agreement was signed for the four-year period 2018-2021 that covers 100% of the workforce.

With regard to the staff of Caja Laboral Bancaseguros S.L.U (CLBS, a company which is wholly owned and operated by LABORAL Kutxa), all of whom are employees, the working conditions are set out in its own collective agreement, which was renewed in 2016, and in general labour legislation. This agreement, which governs the professional and labour aspects that directly affect the group of workers, has a significant level of convergence with the labour regulations and procedures of LABORAL Kutxa.

3.2.4. Staff Development

Throughout this financial year, we at LABORAL Kutxa have implemented the following fundamental actions in relation to people:

- In May 2019 we began the accreditation process in accordance with the Real Estate Credit Contract Law (LCCI) and 1,589 people obtained the APT required by the Bank of Spain (94% of the affected staff), once again proving the commitment and know-how of the people at LABORAL Kutxa.
- Launch of BIDEAN, the new system for personal development, which seeks continuous improvement through the review of a series of professional, business and digital skills, a culture of continuous *feedback* and the definition of quality Individual Development Plans. BIDEAN has initiated a process of cultural change at LABORAL Kutxa that is transforming the way people develop. Bearing in mind that this is the first implementation, the assessment is very favourable in relation to the development interviews held and the agreed Individual Development Plans, as well as with regard to their monitoring.
- Between April and November, the first edition of the LK Business Data Analytics programme was developed with the end purpose of providing participants with new knowledge and skills in relation to data-based management.
    - We have worked on the "What", based on the Data Life Cycle, the "Hows", using techniques and tools such as Microstrategy and SAS, but with a clear framework of the "What for", strongly focused on generating business opportunities with and from the data and for which we have brought in high-level external speakers.

  In parallel to the sessions on "discovery", concepts and tools, the knowledge acquired through the group completion of three real projects has been put into practice.

  The programme has been very positively rated. The academic direction of the programme and the hybrid approach of external and internal speakers, as well as its applicability. Nevertheless, the edition we will launch in 2020 will include some improvements.

- We have incorporated a significant part of the staff of Caja Laboral Bancaseguros-CLBS into the company, and have implemented the corresponding corporate integration plan.
- Definition and launch of the ZAINDUZ programme, a Health Management Plan with a preventive approach, which seeks to raise awareness throughout the organisation and promote a cultural change, providing management tools and action protocols.
- Within the framework of Financial Education aimed at promoting a financial culture in society, we have launched various initiatives to improve the understanding of financial products and to develop decision-making skills. Special mention should be made of the design of the Financial Education skills for first-year baccalaureate students and the "inclusive finance" course for the most disadvantaged groups.
- Lastly, within the definition framework of the Entity's Strategic Plan for 2020-22, in which the transformative role also encompasses the area of people management, we have developed the "Culture and Talent" programme, which introduces new perspectives beyond the management of the processes traditionally assigned to the role. The goal is to provide a differential positioning for customers and society through committed people and leaders with the skills required in today's transformational environment.

In all the companies in the group, the organisation of work is limited to normal office hours.

Continuous Education Programmes

Training activity at LABORAL Kutxa in 2019 consisted of 456 courses and 168,298 hours (81.38 per person). Of these, 88,185 hours (52%) were for women and 80,113 hours (48 %) were for men, compared to 54/46% in 2018. The average score for the training courses in 2019 was 7.94, while in 2018 it was 7.96.

Following the publication in March of Law 5/2019, governing real estate credit contracts, and subsequently in April of the Royal Decree and Ministerial Order specifying the knowledge and skills required by the regulatory authorities, in July the process began for the accreditation of people who design, inform and commercialise real estate credit products. This is a 50-hour training process that concludes with an assessment test (exam).

The accreditation of the people affected by this regulation has been carried out on 4 occasions: July, October, November and December. At the end of the year, we reached our goal and 99.6% of the people who applied for the accreditation obtained it.

Furthermore, the general lines followed by training management during 2019 have been:

- MiFID II: Continuous training required by regulators consisting of 30 hours of training per person.
- Insurance, including the training provided for in the Management Plan and that included in the Insurance Txoko which counts towards meeting the triennial training hours required by the Insurance Mediation Act.
- The training included in BIDEAN-Performance Management.
- Digitalisation, with a specific programme developed with Mondragon Unibertsitatea aimed at all ADN staff and consisting of 3 modules The first module is the one carried out in 2019. The rest will take place during 2020.

New commercial model-Onenak 4.0

In 2019, the new model of commercial excellence was deployed throughout the entire commercial network. Onenak 4.0 aims to expand commercial capacity on the network, evolving the roles and skills of individuals and commercial teams, and empowering them in their activity. In addition, it seeks to guide the priorities of the commercial network towards management and operations of greater added value and to adapt our relational banking model to the digital world and the new competitive environment. The objectives of Onenak 4.0 can be outlined in five main goals:

1. To take advantage of the opportunities that digitalisation offers to better understand the customers' needs.
2. To redefine the roles of people and channels in customer relations.
3. To gear the commercial strategy more towards customer loyalty.
4. To adapt our relational banking model to digitalisation and increase the efficiency of the planning aspect.
5. To optimise management systems in order to drive transformation and prepare people in the organisation by developing their skills and competences so they can respond to new challenges.

Performance management-Bidean

In 2019, a new system, called BIDEAN, was launched to manage personal development. It consists of a system focused on people and their development, encouraging them to be adaptable, with initiative and capable of constant learning, as well as a culture of self-demand, co-responsibility and collaborative work. It is the evolution of the old Performance Management System (SGD), aligned with business strategy, organisational culture and transformation.

This system has been designed based on the following pillars:

- It is a system geared towards people and their development,
- It focuses on ongoing conversations between management and employees, encouraging continuous feedback,
- It pivots on strengths and is future-oriented,
- It embodies a continuous learning and self-learning dynamic,
- It is agile, simple and flexible, geared towards self-management and co-responsibility, which means that we are the main actors and responsible for our own development.

A system that will make it possible to identify organisational potential, creating a context of empowerment and development that contributes to the fulfilment of LABORAL Kutxa's strategy and to people's satisfaction and commitment.

The implementation of this new system entails the development of new knowledge and skills, and for this purpose, we have designed a specific training plan, which has been deployed across the organisation throughout the year.

67% of people at LABORAL Kutxa and CLBS have had a development interview with their manager in 2019. The system will be implemented in Lagun Aro in 2020.

Training in anti-corruption procedures.

All manuals and procedures relating to anti-corruption issues and the code of conduct are posted on the intranet and available to 100% of staff.

Similarly, in 2016, the training course "Systems and policies for the prevention of criminal behaviour" was launched and it has been completed by 80.9% of the staff.

Basque

The process of preparing the Basque Strategic Plan, approved by the Board of Directors in January 2020, consisted of the following stages:

- ✓ Listening stage.
- ✓ Creation stage.
- ✓ Sharing stage.
- ✓ Communication stage.

The people who make up the Language Commission, the Basque Language Technical Commission and the process Coordination Group have all participated throughout the different stages. In addition, 110 members and 910 clients have given their help and opinion through two surveys. Therefore, it has been a highly participatory and collaborative process.
The approved document contains 2 areas of work and 5 main challenges:

- SERVICE LANGUAGE
  - 1. To guarantee and encourage the use of the Basque language in the service to customers.
  - 2. To show that the Entity is committed to the Basque language.
- WORK LANGUAGE
  - 3. To integrate Basque into the dynamics of the organisation.
  - 4. To increase the workers' knowledge of the Basque language.
  - 5. To increase the internal use of Basque.

In addition, with a view to the coming years, the following VISION has been established with regard to developing the Basque language in our Entity: "May LABORAL Kutxa be a Basque-speaking entity of reference in the Basque Country".

3.2.5. Diversity and equal opportunities

LABORAL Kutxa has been and continues to be a pioneering organisation and a point of reference in the design and implementation of active policies in favour of equality between women and men; an example of its commitment to cooperative values and the promotion of equal opportunities for all.
We have been committed to equality for more than two decades. In 1997 we obtained the distinction of Emakunde Collaborating Entity, the Basque Institute for Women, thus becoming the first financial entity to achieve such recognition.
Over all these years, in addition to creating a stable structure for the promotion of equality policies and activating various work groups to address specific issues, we have managed to incorporate equality into the entity's strategy, making it a topic that is included in the Management's agenda, and we have the necessary economic resources to be able to develop the policies and activities that have been defined in the Equality Plans that we have designed and implemented continually in recent years.
Thanks to the work carried out, an equal representation in both the Governing Board and the Social Council is now a reality. As for private individuals office managers, 53% in the Nafarroa network and 50% in the Gipuzkoa network are women.

However, we still have work to do and there are still great challenges to be faced. Our ambition is to achieve a greater presence of women in leadership positions and decision-making areas, and to move towards a shared leadership model that includes the gender perspective. A model in which the traits and behaviours most associated with femininity acquire greater relevance, whether they are exercised by women or not. In short, we want to take advantage of all the existing talent in the Entity, without gender being an obstacle.

In order to achieve this goal, we have developed various initiatives throughout 2019.

- Firstly, when the term of the III Equality Plan came to an end last year, we worked on the design of the IV Plan for the Equality of Women and Men. For this, we started by assessing the level of compliance and effectiveness of the III Equality Plan and then we carried out the diagnostic work. In our approach, we considered both the quantitative information available in the organisation and the qualitative information obtained through the questionnaire distributed to all employees, in which we surveyed the perception that people in the organisation had of the situation of equality at LABORAL Kutxa. This questionnaire also contributed to raising people's awareness regarding equality issues. Based on the results of the diagnostic work carried out and the contributions received, we proceeded to design the IV Plan for Equality (2020-2022).
- Secondly, within the framework of the project Towards shared leadership*,* we organised three new editions of the School of Empowerment aimed at the women of the Organisation. This workshop seeks to contribute to the personal transformation of the participants and is designed to improve women's perception of their leadership abilities and to generate critical awareness of gender roles and stereotypes. The sessions were led by Maru Sarasola, a leadership expert and *coach*. In total 40 women took part and the level of satisfaction was very high, so in 2020 we plan to organise more editions.
- In addition, we launched theawareness workshop for men . In spring we carried out the pilot test of the workshop, with the involvement of Lehendakari Juan José Ibarretxe, and with what we learned, in autumn we organised the first edition of the workshop, also directed by Maru Sarasola. Through the workshop we aimed to show the connections that exist between the new style of leadership that we are promoting and gender equality; to stress the value of "soft" skills and give them meaning (active listening, empathy, capacity to build relationships and connections, etc.); and to raise awareness of the difference in opportunities that exist between women and men to access management positions in the entity. A total of 31 men took part in the workshops and rated the initiative very favourably, so we will continue with these awareness-raising sessions in 2020.
- With regard to external dissemination and communication, we developed various initiatives to publicise the work we are doing in the field of equality. For example, we took part in the conference organised by the Labour Inspectorate of the Basque Autonomous Community on *Public control of gender-based wage discrimination*; we explained the project *Towards shared leadership* in the magazine *TULankide*; and we took part in Emakunde's *BaiSarea* network, together with other organisations identified as *Collaborating Entities*, sharing good practices in equality and learning together.

In addition, we have continued to sponsor various initiatives to encourage the participation and empowerment of women, such as the *Euskadi Foundation, Emakume Master Cup, Lilatón*, etc.

We must also highlight the fact that the Provincial Council of Gipuzkoa organised an award aimed at local companies called *Experiencias para la Igualdad de Mujeres y Hombres (Experiences for the Equality of Women and Men)* for the first time, and that the work presented by LABORAL Kutxa was awarded the first prize at the end of 2018. The main purpose of the award is to recognise the actions carried out in favour of equality and co-responsible work-life balance.

We are aware of the influence that the Entity's ways have on the region and we are convinced that we can be a driving force for social transformation. Therefore, in the coming years we will continue to promote initiatives in favour of equality and diversity.

The Entity meets the requirements regarding *diversity* policies in compliance with the guidelines and regulations on the assessment of the suitability of the members of the governing body and the holders of key functions, considering aspects such as academic profile, professional profile, gender and age in the Policy for the Selection of Candidates for the Governing Board and in the assessment and suitability processes.

In addition, as at 31 December 2019, we exceeded the minimum percentage required for the least represented gender, since the gender parity achieved in 2017 in the members of the Governing Board, the highest governing body of the cooperative, was maintained.

Furthermore, in terms of selection and appointments and renewal of Senior Management members, Caja Laboral has a Succession Plan for key positions, which identifies the critical positions and the professional paths and profiles of origin for their replacement, establishing professional development plans for the people identified and succession plans for each of the positions. The identification of the key positions eligible for a succession plan, as well as of the people capable of becoming the future replacements for the current occupants of such positions, takes into account variables such as training, experience and knowledge, management track record, performance history, personal skills and abilities, commitment to the Entity, potential, etc.

With regard to the employment of disabled staff, LABORAL Kutxa has 17 people under these conditions and CLBS has two, while in Seguros Lagun Aro there are none. Also, compliance with the LISMI is achieved through a monetary donation to GUREAK INKLUSIO FUNDAZIOA for the implementation of labour insertion activities and the creation of employment for people with disabilities.

With regard to anti-discrimination policies that do not refer to gender, the CSR policy expressly refers to discrimination on the basis of sexual orientation and those arising from maternity and the assumption of family obligations. In the same way, the Criminal Compliance Policy contemplates discrimination on grounds contrary to constitutional rights and freedoms.

3.2.6. Conciliation

Conciliation measures

The Internal Regulations contemplate measures for the Conciliation of personal and working life, as a way to ease the difficulties of attending to the staff's peremptory needs of a family nature by means of specific permits and/or leaves of absence. They refer to aspects of working hours, non-presential work, paid leave and unpaid leave.

In 2019 these advantages were extended by making the timetable at Central Services more flexible during the summer (continuous working day) and by expanding the possibilities of taking paid and unpaid leave.

Flexible working hours

All those who regularly work in the Central Services, both at Headquarters and in the Territorial Directorates, can take advantage of the flexible schedule system in terms of arriving and leaving. In 2019, to simplify the work-life balance and to encourage parents to take joint responsibility, the flexibility of this staff has been increased in terms of timetables. The company has now switched to a monthly calculation of hours, with a daily minimum of 5:15 hours of work and flexible entry and exit times. At the same time, members with children under 12 years of age and/or people dependent on them due to age or illness may, upon request and approval, extend the entry time until 9.30 a.m.

Also, there are currently no policies in place regarding work disconnection.

3.2.7. Remuneration Management

At LABORAL Kutxa, remuneration is received according to professional category. All positions are assigned a category and a remuneration (same job title, same salary, regardless of whether male or female), with salary increases being the same for all staff. There are also no differences according to age, except for the effect of the five years of seniority.

At **Lagun Aro**, even when the workers do not own the company, they still participate in the management and the business results. They do so:

- through a universal Individual Variable Remuneration, and
- a Collective Variable Remuneration applicable to people with an indefinite contract (close to 100% of the workforce) voluntarily joining a company formed precisely to enable the participation of workers in the results of the company.

In terms of **pay levels**, the salary range is substantially narrower than in the rest of the banking sector.

LK starting salary	2018	2019
Minimum salary upon entry for partners in € / no. hours worked	15.00	15.18
Minimum salary upon entry for partners in € / Minimum inter-professional salary *	2.43%	2.01%

(*) The minimum inter-professional salary corresponds to that approved by the Spanish Government for each year. There is no difference by sex in the range of ratios between the standard starting salary and the local minimum wage, therefore, this data is not broken down by sex.

For CLBS the ratios for both sets of figures is the same as for LK.

Lagun Aro starting salary	2018	2019
Minimum salary upon entry in € / no. hours worked	11.19	11.30
Minimum salary upon entry in € / Minimum inter-professional salary	1.48	1.49

As regards **salary dispersion**, there is a very narrow range of salaries, consistent with the value of solidarity inherent in cooperatives, as shown below:

	2018	**2019**
Total pay for best paid person LK / average total pay	3.61	3.6
Increase in annual pay of the best paid person LK / average annual pay inc.	1.34	0.82
Total pay for best paid person CLBS / average total pay	Nd	2.02
Increase in annual pay of the best paid person CLBS / average annual pay inc.	Nd	0.59
Total pay for best paid person / average total pay **Lagun Aro**	2.3	2.1
Increase in annual pay of the best paid person Lagun Aro / average annual pay inc.	Nd	3.33

*In LABORAL Kutxa, remuneration is received according to professional category (same job title, same salary, regardless of whether it is male or female), with salary increases being the same for all staff.

At the end of the financial year, the achievement attained, linked to the Individual Variable Remuneration (IVR), is reviewed, evaluating the financial year already concluded with regard to qualitative or quantitative objectives, as the case may be. This evaluation affects all members, with 523 of them having individual objectives in 2019 (513 in 2018) and the rest having objectives associated with their work team.

The evolution of what variable remuneration (individual + collective) means for staff in relation to total remuneration is as follows:

	2018	**2019**
Variable Remuneration / Total Remuneration (in %)	8.33%	Nd (1)

(1) Data not available at the close of this Report

Remuneration to share capital

Members' contributions to the Share Capital have been remunerated in 2019 at the annual rate of 4.5% gross for compulsory and voluntary contributions.

Remuneration to Share Capital (thousands of euros)	2018	2019
Total payment of interest to Capital (to associated companies, to working partners, etc.)	33,565	34,316
Share received by working and collaborating members (1)	11,766	12,189

(1) Collaborating members are retired working members who maintain their share in LABORAL Kutxa.

3.2.8. Occupational Health & Safety

LABORAL Kutxa has an Occupational Health and Safety Management System (hereinafter OHS) in accordance with OHSAS 18001:2007, certified by Ondoan AIC since 2009. LABORAL Kutxa is a member of the Osarten Joint Prevention Service.

In 2018 LABORAL Kutxa and CLBS passed the regulatory audit and renewed their OHSAS certification. In 2019, the first follow-up audit was passed. To achieve the objectives defined in the Occupational Health and Safety Policy (OHS), the activities are planned annually in the OHS Management Plan:

Management programme: Proposed actions for 2019 and their situation.	
1.	Perform 500 medical check-ups (LK and CLBS). Not met: 369
2.	Perform risk assessments that affect 500 workers. Completed (537)
3.	Implementation of a plan for managing conflict between workers. Discontinued due to overlapping with other initiatives underway from Social M. (Bidean and Onenak.4).
4.	Reach 85% of staff who comply with emergency training: postponed to the first quarter of 2020.
5.	Adapt the counters of 30 offices and replace 150 old model chairs: Completed (52 desks and 675 chairs).

Management Program: 2020 Commitments	
1.	Implement a new system for office management to inspect office locations.
2.	Adapt the management system to ISO 45001.
3.	Perform 500 medical check-ups (LK and CLBS).
4.	Reach 85% of staff who comply with emergency training
5.	Link the business activity coordination software to access control in Central Services (CS).

The Health and Safety Committee is a Joint Committee with equal representation, which is also attended by the Director of the Social Management Area and the Company Physician. The Chairman of this Committee is one of the workers' representatives (Prevention Delegate). This Committee meets at least once a quarter, and everything discussed in its meetings is recorded in minutes, which are made available to everyone on Giltzanet (intranet). All people are covered by this Committee.

The most relevant indicators regarding occupational health and safety management are presented in detail below.

Accident rate	2018	2019
Employee accident rate.	1.04	1.07
No. employee accidents.	38	46
No. of fatalities among employees.	0	0
No. of robberies	2	6

The accident rate is established based on the frequency of accidents, excluding those that have taken place "in itinere" (on the way to or from work) and those that have not resulted in medical leave, in order to calculate only the most serious accidents that take place in the workplace. This index is determined based on the number of accidents per million hours worked. There are no recognised occupational illnesses.

The OHS System views the risk of robbery as one of the specific risks arising from the activity of LABORAL Kutxa, for which a series of instructions have been issued, provided to all staff and published on the Intranet, establishing both preventive measures and measures to be taken in the event of such situations.

In 2018, a protocol was developed and approved for situations of external violence that includes action in the event of aggression, threats or insults to our staff. These situations have come to be treated as occupational accidents.

Emergency drills are conducted every year in the Headquarters buildings. Also, all the work centres have emergency plans, which are available on the intranet so that each person can refer to the one that is applicable to them. No objectives are set, but rather forecasts are made regarding the absenteeism variables, if they are made regarding the overall rate.

A novelty in 2019 was the launch, in collaboration with Osarten-Psia, of a psychological support service. It consists of referring any situations that may require psychological intervention to an external service, which guarantees anonymity. Social Management and the Medical Service will be responsible for detecting these needs. In addition, in 2019 the occupational risk prevention management system was adapted to the new ISO 45001 standard.

Lagun Aro also has a Health and Safety Joint Committee with staff representation covering the entire workforce.

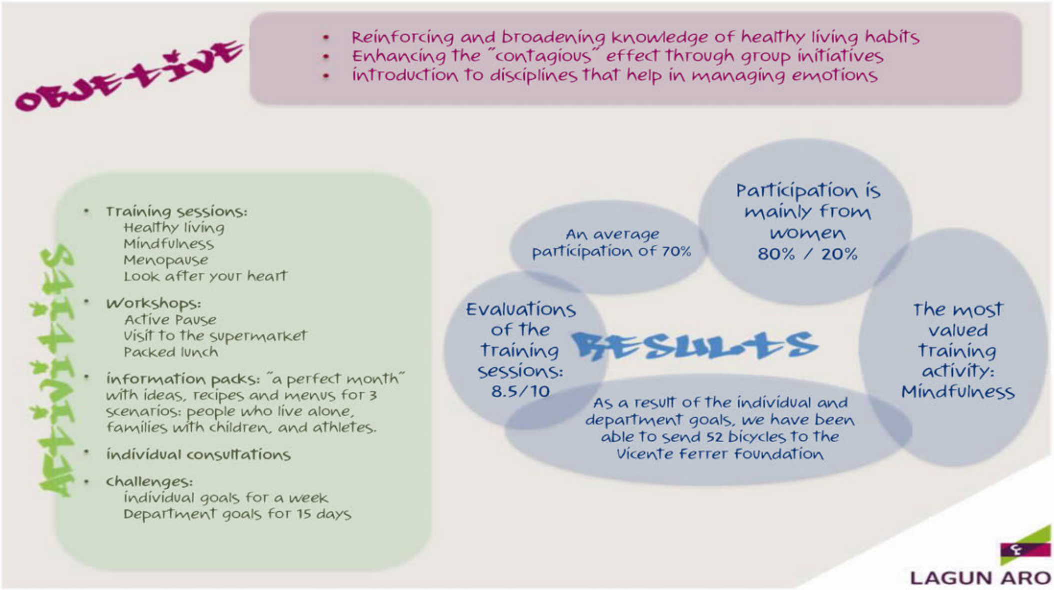
Health Plan-Zainduz

In 2018, a health plan was designed for LABORAL Kutxa staff. Zainduz is a program designed to take care of your health and promote healthy lifestyle habits. It covers aspects such as improvements in diet, physical activity and health at work, so as to improve the health and physical and emotional well-being of the people who belong to the LABORAL Kutxa Group. The actions were implemented in 2019. The main actions carried out were:

- Creation of a multidisciplinary and transversal work team, and an identifying logo and a specific space on the intranet.
- Organisation of a conference on healthy eating.
- Distribution of a glass water bottle with the Zainduz logo to everyone as a measure to raise awareness of the importance of hydration during the workday.
- Publication of videos promoting health improvements: managing emotions, for better sleep, back care, prevention of cardiovascular disease,...
- Nutritional care by removing unhealthy products from vending machines, as well as sugar, by default, in coffees.
- Nutrition information packs, raffle of fruit baskets, intervention in the cafeteria,...

In 2019, **Seguros Lagun Aron** has given continuity to the Health Promotion Project "At Seguros Lagun Aro we take care of our own".

By way of summary:



Social Benefits Package

LABORAL Kutxa has developed the following initiatives focused on improving the social benefits received by its people:

Social benefits
Annual celebration of a day of gathering and socialising (everyone), Elkarte Eguna, and participation through Club Lankide (financed by the Entity itself) in cultural and sporting activities as a vehicle for personal interaction outside working hours.
Advantages in financial products (members): Assets: Subsidised loan for primary residence, primary supplementary loan, loan for other domestic use, salary advance. Liabilities: salary account. Banking services: fee waivers, card fees waivers, discounts. Accident insurance.
Other benefits (partners)**:** Financing of private and Basque language studies Funding for extraordinary personal requirements Subsidised company dining room (everyone). Vehicle damage cover. Extraordinary expenses due to the death of members. Financial advantages for those retired from LABORAL Kutxa who maintain their status as a collaborating partner and their widows / widowers who are also collaborating partners. These advantages include: salary account, exemption from some fees and loans with preferential conditions.

Specifically, the Entity's working partners have the following social benefits:

Lankide Club

LABORAL Kutxa believes that joint cultural, sporting and tourist activities, etc. are an ideal vehicle for encouraging contact between colleagues outside working hours. Accordingly, it has agreed to set up Lankide clubs at Headquarters and in each of the regions, with the primary aim of promoting interpersonal relations through the enjoyment and implementation of leisure activities.

In addition to holding the annual fellowship events (Elkarte Eguna) in 2019, cultural, sports, and leisure activities have also been held, such as: season tickets for theatre and music, mountain and cycling association grants, football tournaments, football and basketball season tickets or excursions. The total budget for 2018 was €30,532.

Capitalised cooperative returns (individual pension plan)

Each year, LABORAL Kutxa distributes 12.5% of its available profits among its members, as a cooperative return or share in the profits, which is capitalised and added to the share in the capital of each of the members.

This share of the capital stock is not available until the working partner ceases to work at the Entity, and is practically an individual pension plan after growing throughout the person's working life at the Entity. This share receives an annual remuneration (4.5% in 2018 and 2019) in the form of interest on capital. The individual annual allocation of the cooperative return is based on their total gross salary.

Cooperative return allocated to working partners (thousands of euros)	2018	2019
Annual overall amount	11,856	12,915
Average amount per partner	5.91	Nd (1)

(1) Data not available until the General Meeting.

Meeting the financing requirements of a supplementary health care system

LABORAL Kutxa covers, for the benefit of its members and working partners, co-payment of the fees required for the annual financing of a comprehensive health care system, complementary to that of the public social security system, which the MONDRAGON Corporation provides for its participating members. In 2019, this co-payment was 1.85% on the advance of gross consumption.

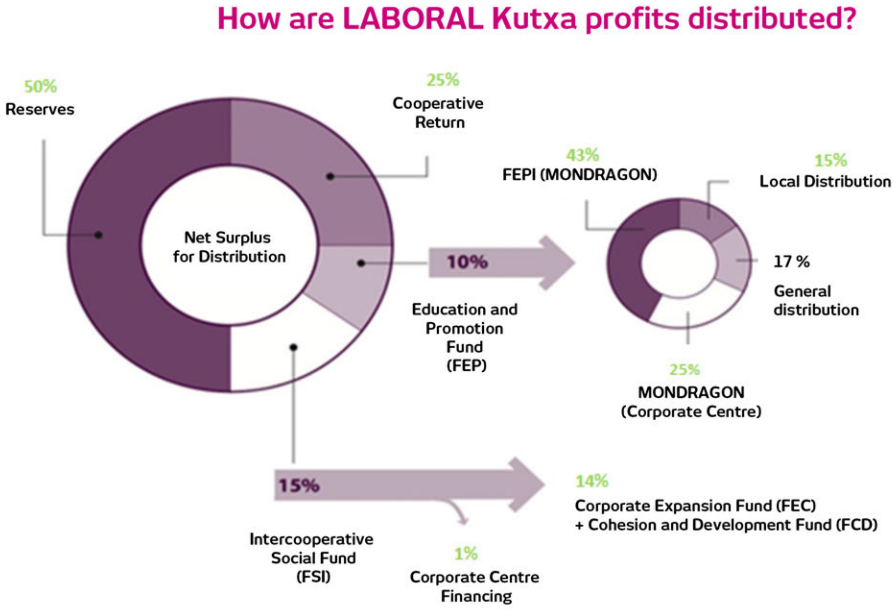
3.3. Our relationship with society

3.3.1. Management approach

LABORAL Kutxa was founded in the Basque Country as part of a business group with a strong commitment to serving society, whose mission includes the creation of associated and participative work of a cooperative nature, as an essential way of creating wealth and well-being, both among its direct members and in the Society in which it is immersed.

The criteria and mechanisms for the allocation of social assistance are unique:

- Due to its legal nature and its cooperative vocation, LABORAL Kutxa directs a significant part of its humanitarian aid contributions to the promotion of the cooperative world.
- In the distribution of subsidies under one of the headings of the Education and Promotion Fund, the distribution of which corresponds to the institutional bodies of the cooperative, the section known as "General Distribution", one of the organisations that takes part is the Social Council, which is the representative body of the entity's working members.



- In addition, it also reserves a specific section of the social projects for local assistance (Local Distribution), by means of allocations through the 304 branches of LABORAL Kutxa, which steer the aid towards their own areas (neighbourhood associations, nearby educational centres, parochial social action groups, immigrant social assistance centres, etc.).

The purpose of the Education and Promotion Fund (FEP) is:

- Training and education of the workforce in cooperative principles and values.
- The dissemination of cooperativism, as well as the promotion of inter-cooperative relations.
- The cultural, professional and assistential promotion of the community in general, as well as improving the quality of life and the community development and environmental protection activities.

The Inter-Cooperative Social Fund - FSI aims to:

- Promote business projects and the expansion of cooperatives through Mondragon Investments and the FEC (Corporate Expansion Fund).
- Among other uses, support for MONDRAGON co-operatives in difficulty, R&D&I projects and training through the Mondragon Foundation and the FCD (Cohesion and Development Fund).

During 2019, LABORAL Kutxa has continued to strengthen its commitment to the environment, biodiversity and sustainable development, thanks to the signing of various agreements with the main agents in the agri-food sector, and the support given to initiatives linked to the rural environment.

Gaztenpresa Foundation

The Gaztenpresa Foundation is a private, non-profit organisation. It is part of the welfare programme of LABORAL Kutxa and its aim is to support initiatives and develop actions that facilitate the creation and preservation of employment, through programmes and services that add value to the business and professional development of its users, and also to its allies and society as a whole. The Foundation's target group includes:

- Entrepreneurs, mainly young people.
- Collectives with difficulties in their social and labour insertion.
- Young micro-enterprises with development projects.
- Training institutions that want to encourage the entrepreneurial spirit among their students.

The business creation activity of the Gaztenpresa Foundation, financed by LABORAL Kutxa and Corporación Mondragón, as well as by the Basque Government (Dept. of Employment and Social Policies) through Lanbide and the European Social Fund, was again substantial in 2019. The projects supported and which went beyond the feasibility phase generated 405 companies, creating 787 jobs. Its scope of activity is the Basque Country and Navarre.

The general objective is to promote the creation, development and maintenance of small businesses and micro-SMEs, identifying employment opportunities through self-employment for people who are unemployed or at risk of becoming unemployed.

The process involves identifying and developing the person who wishes to become an entrepreneur and assessing their suitability to the reality of the market, in order to determine and suggest the self-employment opportunities best suited to their situation. It offers all-round support, providing a response to the general demand for guidance, training and technical assistance, both for start-up and for the consolidation and survival of the companies created.

The intention is that people who decide to start their own business can develop their personal initiative and get to know the business framework they are hoping to enter, and for this they will have qualified people to guide them on the path to follow, thereby developing their own professional plans.

Gaztenpresa Projects	**2018**	**2019**
Viable and open the business	415	405
Not viable/ Viable but do not open the business	144	195
Consolidation	120	50
Derivatives	108	96
Consultations	298	295
Total	**1,085**	**1,041**

Among the viable ones that open the business, the regional distribution is as follows.

Gaztenpresa projects in 2018	Araba	Bizkaia	Gipuzkoa	Navarra	**Total**
Viable and open the business	65	182	97	61	**405**

These are small businesses, with services and retail being the most common sectors of activity:

- the average *investment* in 2019 was €81,000,
- The average *finance* provided by the Bank was €42,100, 49%
- employed 2 people at the outset,
- the average age of the entrepreneur was 39 years old and,
- by gender, the percentage of women entrepreneurs was 47%.

Once the company is up and running, the entrepreneur faces many practical difficulties and a sense of isolation that often prevents him or her from dealing with them properly. Gaztenpresa runs *workshops* that provides further support to these entrepreneurs, also answering *queries* on new investments, closure decisions, change of market or applications for new subsidies.

Business consolidation	2018	2019
No. workshops	75	50
Companies in consolidation	120	175
Queries handled in PRO service	432	372
Mentoring programme	27	20

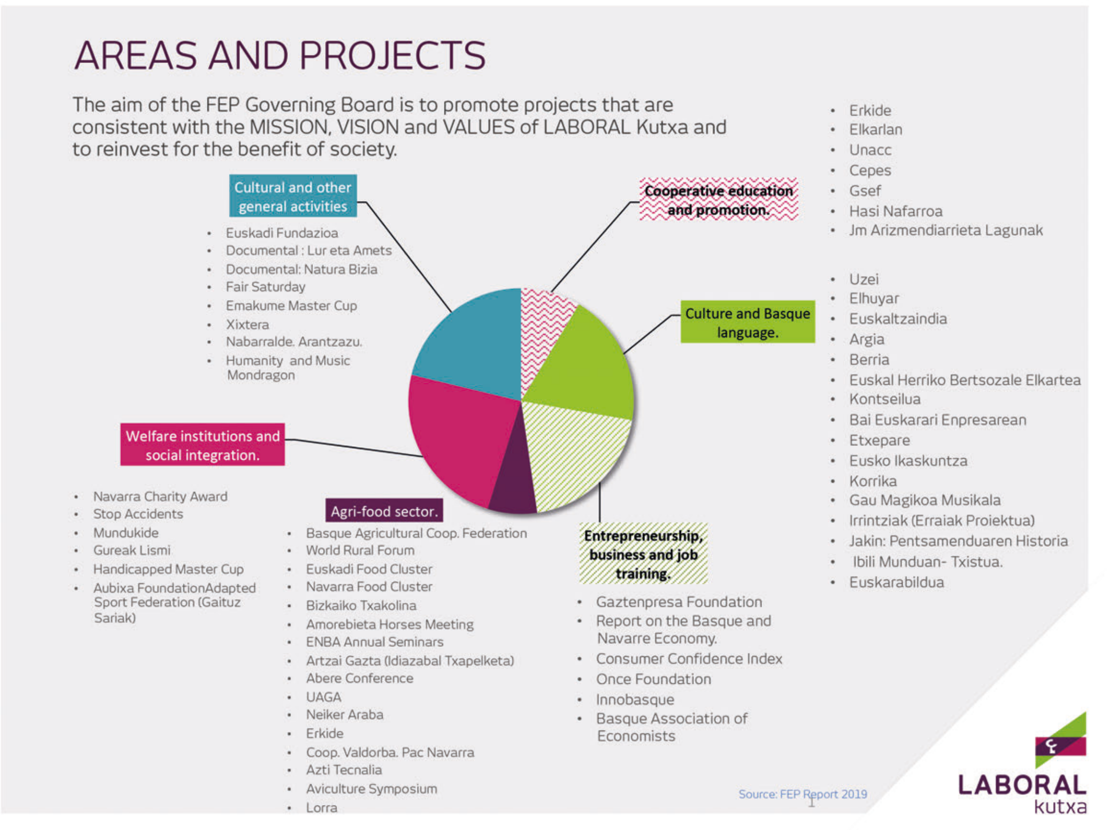
Also, the mentoring programme offers one-to-one coaching for a year. A volunteer with entrepreneurial experience helps an entrepreneur who is starting his or her first business venture to improve their skills and competence, enhancing both their personal and professional development as well as the consolidation of their business. The Gaztenpresa mentoring programme is a structured process designed based on the experience of other members of the *Youth Business International* Network and with the support of *Accenture*.

Indirect contributions to society

The most significant indirect economic effect is the generation and distribution of wealth and employment, preferably in a cooperative manner, which is achieved through the contribution of resources from LABORAL Kutxa to the MONDRAGÓN group. We also have an influence on society through hundreds of sponsorship and promotional activities to which we allocate economic resources.

More than 200 initiatives were supported in 2019: conferences, awards, cultural activities or the promotion of the Basque language, sports or charitable work.

These include:



https://blog.laboralkutxa.com/todos-los-patrocinios-de-laboral-kutxa-en-2019/

Also, the staff at Central Services are given the opportunity, twice a year, to donate blood for the benefit of the Gipuzkoa Association of Blood Donors. In 2019, 116 donations were made (121 in 2018).

Basque Cycling Foundation

A particularly important initiative in 2019 was LABORAL Kutxa's support for the creation of the Basque Cycling Foundation. The project goes beyond sports and aims to relaunch the training work in order to create a regional structure that guarantees the practice of basic cycling in the best possible conditions.

It is a cross-cutting project because values such as equality, healthy lifestyle and building a more sustainable future for the environment are promoted through the practice of cycling among young people.

Relations with Government Agencies and political parties

LABORAL Kutxa defines the management of government agencies in the Public Sector Management Manual as a distinct, integrated, coordinated and dynamic management by the Public Sector Office within the network of Companies. This document defines the responsibility and functions of each Division of LABORAL Kutxa in the management of this segment, in everything that affects the segmentation, management systems, information systems, commercial strategies and risk management.

In the same way, the LABORAL Kutxa Risk Manual "Credit Risk Policy, Methods and Criteria", considers in Chapter 5 the "Risk Policy to be applied to the Public Sector", establishing a differentiated policy within the scope of Companies due to their accounting particularities. LABORAL Kutxa does not provide finance to any political association or national or international entity, except for the loans and guarantees to political parties listed in the following table:

	2018	2019
Eusko Alkartasuna	118	104
EAJ - PNV	793	670
Loans (thousands of euros)	911	774

3.3.2. Main figures: Profit sharing in society

As explained in the management approach, the main contribution of the LABORAL Kutxa Group to society is through the distribution of 25% of its distributable annual profit. In 2019 it was almost **23.5 million euros**. The distribution among headings was as follows:

Item (thousands of euros)	Years of application	
	2018	2019
Charitable contribution to the launch and consolidation of cooperative companies (through MONDRAGON)	12,887	14,227
Inter-cooperative Social Fund - FSI (15% of Distributable profit)	**12,887**	**14,227**
Cooperative Promotion through MONDRAGON (68% FEP) and other destinations (UNACC, etc.)	5,841	6,593
FRES, Fund for Restructuring and Company Employment	698	0
Entrepreneurship and Business and vocational training (*Fundación Gaztenpresa)*	311	331
Cultural activities in general and others	543	845
Promotion of the Basque-language and Basque Culture	321	703
Welfare institutions and developing countries	373	630
Agri-food sector	63	105
Education and Promotion Fund - FEP (10% of Distrib. profit).	**8,150**	**9,210**
Sum FSI+FEP	**21,037**	**23,437**

3.3.3. Dialogue with society

These are the most relevant mechanisms for dialogue with society.

Group of Interest: Society
Dialogue mechanisms implemented in 2019:
▪ Membership of Izaite, Association of Basque companies for sustainability, which focuses on social and environmental issues.
▪ Social network with entrepreneurs to share concerns and propose collaborative actions through the Gaztenpresa Foundation. And adhesion, as a founding member, to YBI- YBS Youth Business International in Spain, an international network of Good Practices and support to young entrepreneurs.
▪ Participation and dynamisation of virtual communities with a presence in blogs and social networks on the Internet to reinforce contact and the pooling of ideas and initiatives: ❖ Instagram: 5,301 followers ❖ Facebook: 17,545 fans ❖ Twitter: 5,926 followers ❖ Blog: 185,160 readers ❖ WhatsApp: More than 1,000 users attended to per month.
▪ Specific analysis of the opinions and expectations of the users of OnLine Banking through the use of internet tools to monitor opinions, forums, social networks and expert reviews.
▪ Acknowledgments, in collaboration with various institutions, such as: Navarra Prize for solidarity which went to "Emaus", Humanities Prize (with Eusko Ikaskuntza) which went to Juan Ignacio Pérez Iglesias, Etxepare Translation Prize which went to Ainara Munt. ▪ Survey of customers from companies, personal banking, Kide and Pro-microcompanies on their assessment of CSR activities at LABORAL Kutxa, while sending out the Executive Report on the 2018 Report. ▪ Public Presences. Representatives of LABORAL Kutxa attended forums (universities, interviews, talks) to which they were invited to explain their way of doing things and their commitment to society. These forums also enable dialogue with stakeholders. Among the public appearances, the presence in September of our Chairman at the signing of the United Nations Principles for Responsible Banking is particularly relevant. The signing took place in New York and marked the launch of this initiative to generate transformation within the financial sector.

In 2019 LABORAL Kutxa continued its line of dissemination of Social Responsibility among different groups of interest. In this respect, LABORAL Kutxa:

- Has made the Report available to the public on the websites of GRI, Izaite and the Entity.
- It has distributed the CSR Report to its staff via the intranet (Giltzanet).
- It has sent an email to more than 250,000 clients with the Executive Report with the general lines of the annual Report, also making the full version available. We have also made use of this contact to ask for the customers' opinion on the establishment of CSR at LABORAL Kutxa.

3.3.4. Initiatives endorsed by LABORAL Kutxa

The following table shows the current initiatives carried out by LABORAL Kutxa:

Name	Purpose	When
Agreement with FIARE, renewed with Banca Popolare Etica	Commitment to collaborate with ethical banking. In 2017 it was renewed once Fiare became a Spanish branch of Banca Popolare Etica	2005
Adherence to the United Nations Global Compact.	Commitment and progress in the 10 Principles of the Compact.	2006
Affiliation to Izaite, Association of Basque Companies for Sustainability.	To share experiences in business sustainability and promote training and dissemination in the field of sustainable development.	2006
Joined Autocontrol.	Association for the Self-Regulation of Commercial Communication.	2007
World Rural Forum	To promote rural development as an integral part of overall economic development.	2007
Emekin Programme, with the Provincial Council of Gipuzkoa and the Association of Women Entrepreneurs	Full coaching for women with a view to promoting a business. Additional agreements with the associations of Women Entrepreneurs and Directors of Bizkaia, Gipuzkoa, Alava and Navarre: AED, ASPEGI, AMPEA, AMEDNA	2007
EFMA European forums: SME Council, Operational Excellence Council, Spanish Retail Banking Decision Makers Club	Exchange of good commercial and management practices between leading European banks and savings banks through EFMA - European Financial Management Association.	2010
Agreements with various town councils to promote the use of the Basque language in their reciprocal relationships	Initially with Andoain, Astigarraga, Hernani, Lasarte-Oria and Urnieta. Expanded in 2016 to include 38 towns grouped in UEMA.	2011
Agreements to support the social economy	Annual agreements with associations linked to the social economy in the Basque Country and Navarre: Erkide, Asle and Anel Annual agreements with Cepes at a national level.	2012
Agreements with the European Investment Fund (EIF).	Agreements to support the creation and reinforcement of micro-enterprises and related jobs. Progress programme. In 2015 it was continued through the EaSI Programme. In 2016 there was Innovfin to support innovative companies. In 2017 EaSI social economy	2013
LABORAL Kutxa financial management programme - Cebek	Training seminars and workshops for entrepreneurs and SME managers in Bizkaia. There are similar partnerships with SEA - Empresarios Alaveses, and with the Chambers of Commerce and Industry in Alava and Gipuzkoa	2013
Local founding partner of YBS - Youth Business Spain	Participation in Youth Business International, International Network to Help Young Entrepreneurs.	2014
Agreement with the Basque Government to safeguard linguistic rights	Allowing customers to carry out all their operations in either of the two official languages.	2015
Code of Good Practice for Financial Education initiatives	Educational programmes on financial matters. Developed in conjunction with the CNMV and the Bank of Spain, and separated from the business activity	2016
United Nations Principles for Responsible Banking	Framework for the sustainable banking system of the future. Commitment to the 6 Principles.	2019

Lagun Aro Insurance:

CONTRIBUTION IN THE SOCIAL ARENA

- Collaboration with **STOP ACCIDENTES**, a non-profit, citizen organisation committed to road safety and the right to life. Throughout 2018 we can highlight the IV Photographic Competition and its subsequent touring exhibition "Peatón, ciclista. Que no atraviesen tu vida" (Pedestrian, cyclist. Don't let them ruin your life) which aims to make society aware of the risk factors and road problems associated with mobility in urban areas.
- **GAZTENPRESA:** collaboration in the mentoring programme of this foundation, a LABORAL Kutxa initiative, the aim of which is to promote employment and support entrepreneurs in the creation of companies in the Basque Country and Navarre.
- **ZEHARO FOUNDATION:** financial collaboration with this foundation which aims to integrate people at risk of social exclusion into the workplace.
- **Biscay Blood Donors:** they visit our premises 4 times a year and we have a regular group of people from the company who are frequent donors.

COLLABORATION AGREEMENTS

We collaborate with the Basque Center for Applied Mathematics (BCAM), with the aim of creating prediction models for customer churn and incidents in car insurance, using advanced mathematical techniques to optimise policy renewal and profitability ratios.

Financial education

The main activities carried out during 2019 in the field of financial education were:

- Finantzetan Murgilduz Erronka. Agreement with Ikastolen Elkartea to create resources for the development of Financial Educ. in educational centres. Programme aimed at A level and 3rd-4th year secondary students.
- School visits to LK.
- Finantzargi (University). Basic finance training for university students. Launch of the project in Mondragon Unibertsitatea. Irun and Oñate Campus 6 groups (March-April-May) and 6 groups in November-December in Bilbao and Irun.
- 3 workshops on inclusive finance for disadvantaged groups. 40 people in conjunction with Lantegi Batuak in Erandio and Derio.
- Creation of a section on Financial Education within the corporate website.

Awards received

The following awards have been received over the past three years:

- 1st Prize for Experiences of Equality between Women and Men in companies in Gipuzkoa 2018, awarded by the Provincial Council of Gipuzkoa
- In 2017, the award for the event to support entrepreneurship and innovation in the Basque Country, *EUSTART Up,* as the company having contributed most to supporting entrepreneurship.

As for Lagun Aro, it received recognition in 2018:

ETHICAL AND SOLIDARITY-BASED MANAGEMENT

The Ethical Finance Observatory has certified Seguros Lagun Aro with the EthSI (Ethical and Solidarity Based Insurance) seal, in recognition of its ethical and solidarity-based management.

This seal acknowledges the adoption of a set of criteria aimed at providing transparency in the insurance sector and promoting the development of ethical insurance.

The Observatory, via an independent evaluation committee, assesses aspects grouped into the following categories: responsibility towards the community and the region, financial responsibility, ethical investment and the use of ethical banking, equality and transparency, environmental responsibility, employment responsibility, corporate structure, governance and democratic operation.

3.4. Our relationship with the environment

3.4.1. Management approach

Since 2001, LABORAL Kutxa has been implementing an Environmental Management System - EMS in accordance with ISO 14001, for all its activities in the three Headquarters buildings. Although it is not part of the certified system, LABORAL Kutxa transfers the majority of its environmental activities from central services to the other work centres. In 2019 the certification was renewed for three years.

The Environmental Management System is the responsibility of an Environmental Committee made up of members of the Legal Department, Internal Audit, Risks, Fixed Assets, Security and General Services and Management Planning and Control, with the latter acting as the Coordinator. In accordance with the precautionary principle of the Rio Declaration, it addresses the possible impacts of the activity with a view to preventing environmental damage. Although the direct effects of the financial and insurance activity on the environment are very limited, there are indirect effects.

Seguros Lagun Aro shares the environmental management policy of LABORAL Kutxa, the aim of which is the continuous improvement of environmental behaviour, the prevention of pollution and the protection of the environment. As with LABORAL Kutxa's network of offices, it is not integrated into its Environmental Management System.

Due to the very nature of its activity, the environmental impact caused by the insurance company is minimal.

However, its management focuses on the issues related to paper consumption. In 2019, 2,605 more printouts were made at Central Services as a result of the internalisation of the management of registered letters, which had previously been carried out off-site. The huge effort made in this area since the end of 2017 has led to a reduction of more than 1 million printouts and photocopies per year for the business.

From an environmental point of view, a particularly significant initiative in 2019 was the participation of LABORAL Kutxa in the EKIAN solar plant. With a surface area of 55 hectares, an operating power of 24MW and an estimated production of 40,000MWh per year, it is the largest photovoltaic plant in the Basque Autonomous Community. The Entity's participation shows its willingness to contribute to the transition to a more sustainable energy model.

A distinguishing feature of LABORAL Kutxa's Social Responsibility policy is the implementation of an extensive concept of Socially Responsible Investment - SRI, whereby environmental, social and good governance criteria are taken into account when deciding on the companies in which corporate funds or those from customers are invested through investment or pension funds, but also in relation to credit investment.

The EMS is audited annually by AENOR. In the certification renewal audit report, dated 17/10/2019, the strengths of the EMS were listed as:
- The Entity's initiatives related to Socially Responsible Investment.
- Participation in the 'Ekian' project, the Arasur Photovoltaic Plant.
- The completion of the work on the LK1 building for the central services, with the use of energy from the geothermal heating system and the use of the biomass plant.

It also mentions two non-conformities in the system related to emergency preparedness and response and compliance assessment.

As stated in the ISO standard followed by the EMS, the success of an environmental management system depends on the commitment of all the functions and levels of the organisation, under the leadership of senior management. Thus:
- LABORAL Kutxa has an Environment Policy, approved by senior management, with access for all its partners and customers, through its publication on the corporate website.
- Every year, it carries out planning to determine the risks and opportunities related to its environmental issues.
- On the basis of this, it establishes objectives that are monitored and communicated, both internally and externally.
- It also plans the appropriate actions to achieve these environmental objectives, determining what is to be done, with what resources, who will be responsible, and with what indicators its achievement and compliance with deadlines will be evaluated.

3.4.2. Main figures and initiatives developed

In terms of resources dedicated to the prevention of environmental risks:

Direct expenses charged to the EMS	2018	2019
Maintenance of the EMS (1)	4,106	6,763
Waste management (2)	5,220	4,830
Environmental promotion	3,763	168
Measurements (discharge)	1,118	565
Total in €	**14,206**	**12,326**

(1) IZAITE, AENOR, Hora Planeta, advice and legal requirements.
(2) Removal of Paper, oil and Safety Advisor.

These expenses are those directly managed by the Environmental Committee and do not include costs managed by specific departments or any investments made. **Lagun Aro Insuance** does not have specific headings for this purpose.

With regard to the principle of precaution, as explained above, LABORAL Kutxa has an environmental management system in which environmental risks and opportunities are taken into account and analysed. Within this analysis, no products or technologies have been detected that are being implemented and are suspected of posing a risk to public health or to the environment.

Nor is it considered necessary to make provisions or guarantees for environmental risks.

Environmental risk assessment

As part of its Environmental Management System, LABORAL Kutxa has a "Review Control and Risk Management" procedure that sets out the steps to be followed in order to evaluate and control the environmental risks in all operations involving commercial credit investment and company risks, assigning each activity a High, Medium or Low level of risk, excluding the areas of treasury, securities portfolio and monetary assets. When the assigned risk level is High, this factor is taken into account as another evaluation factor for deciding whether or not to authorise the transaction.

2018

Segment	Operation No.	Thousands of €	High	Medium	Low
Companies	561	723,472	22	80	459
Individuals	14	47,480	1	1	12
Self-employed	0	0	0	0	0
Businesses	10	10,465	0	3	7
Developers	121	296,651	0	0	121
Institutional	150	415,131	4	30	116
Public	32	435,029	0	0	32
Fin. Loan	6	10,975	0	0	6
Total	**894**	**1,939,203**	**27**	**114**	**753**

Year 2019

Segment	Operation No.	Thousands of €	High	Medium	Low
Companies	562	878,324	27	87	448
Individuals	12	29,699	-	-	12
Self-employed	1	1,400	-	-	1
Businesses	12	9,084	-	-	12
Developers	85	294,990	-	-	85
Institutional	127	471.016	5	3. 4	84
Public	27	392,869	-	-	27
Fin. Loan	9	7,662	-	-	9
Total	**835**	**2,085,043**	**32**	**121**	**682**

If the company in question has several production centres, the risk assessment is carried out for each of them, with the risk assigned to the company being equivalent to the highest of the risks obtained. In the last three years, no operation has been rejected on the grounds of environmental risk.

Elsewhere, in section 4.2 Socially Responsible Investment, reference is made to other environmental controls carried out from an environmental point of view in both credit investment and investment management.

Transparency in exposure to fossil fuels

A Communication from the European Commission in March 2018 includes an Action Plan, entitled *Financing sustainable development*, the objectives of which include

- redirecting capital flows towards sustainable investments, and
- managing financial risks arising, in particular, from climate change.

In the same line of emphasis on the importance of managing the risks of climate change, the *Task Force on Climate-related Financial Disclosure - TCFD* of the *Financial Stability Board - FSB* published, in June 2017, some recommendations on climate-related reporting which, in relation to banking, stresses the importance of measuring and managing the concentration of risk exposure to carbon-related assets, including those relating to the industry producing and supplying energy from fossil fuels, excluding renewable energy sources. It therefore includes companies involved in the production and supply of conventional electricity, oil, gas and coal mining.

Exposure to fossil fuels as at 31/12 thousands €	2018	2019
Exposure to Credit Risk		
Circulating risk	16,714.3	46,332.2
Structural risk balances and guarantees	6,513.2	7,170
Shares in wholesale risk	10,839.5	0
Total exposure	**34,067**	**53,502.2**

It was confirmed that LABORAL Kutxa's exposure to the incidence of climate risk in these industries is very limited.

Pollution

During recent years, LABORAL Kutxa has made a significant investment effort that has resulted in the complete renovation of two of the three buildings of Mondragon's Central Services. These actions have involved the introduction of the latest technologies in lighting, air conditioning and insulation, which has led to achieving the highest environmental rating (A). The introduction of renewable technologies such as geothermal and biomass for the air-conditioning of the buildings is of particular importance. In addition, when renovating the branch offices of the business network, these technologies are applied with the aim of reducing the impact of the activity and minimising emissions. Lastly, a continuous effort is being made to digitalise the business. This is true both for the relationship with our customers and for the internal activity.

Noise is not considered to be a significant issue in the annual assessment of environmental matters within the environmental programme. With respect to light pollution, it is not taken into account due to the small impact of financial business on this matter. Moreover, there are mechanisms to turn off the lighting of the luminous signs of the offices after a certain time at night.

Circular economy and waste prevention and management

With respect to environmental safety, the Central Services buildings and facilities have emergency plans that consider possible effects on the environment in the event of an incident, as well as how to act to minimise this impact. There are also emergency plans for all the workplaces, although, in the network of offices, the potential environmental effects of emergencies are much lower.

For waste management, waste is managed correctly within the framework of the environmental certification. In addition, the most important waste, paper and toner, are managed centrally for all work centres. The most significant waste related to our activity are indicated below:

		LABORAL K.		Seguros LA	
Indicator	Unit	2018	2019	2018	2019
Cardboard and paper waste	Kg	105,994	106,927	132,463(1)	5,652
Recycled toner cartridges	No.	3,821	6,321	(two)	
Used vegetable oil	Litres	1,520	2,295		

(1) A warehouse was cleaned in 2018 from which over 120 tons were removed.

(2) This waste is not generated for Lagun Aro.

At the end of 2019, a new waste management system was implemented in the office network. The individual waste bins that existed until now in all the workplaces have been removed and replaced by shared bins that differentiate between three types of waste: paper, packaging/plastics and other waste. This thereby improves the selective collection of waste, makes both staff and customers aware of the importance of caring for the environment and ensures better management of the paper to be destroyed and recycled.

Given the activity carried out, no measures are taken to combat food waste.

The water used drains into the municipal sewage network. The wastewater is analysed externally each year to verify that it is within the authorised limits.

Sustainable use of resources

Although water consumption is not significant in a financial institution, within our environmental system the consumption by central services is managed, not that of the branches or Lagun Aro. As part of the refurbishment of the Headquarters buildings, the pipelines have been renewed with the aim of reducing leaks and water losses. The water consumption of Lagun Aro and the business network is limited to the toilet facilities, so it is not considered significant or manageable, unlike the Headquarters, where it is also used in the kitchen and for irrigation.

Water consumption (m3) at Headquarters	2018	2019
Water consumption	7,447	10,898

Each year, the environmental programme identifies, records and evaluates environmental factors in order to determine their associated environmental impacts and establish their level of significance from a life-cycle perspective. To this end, the scale and degree of danger are determined, obtaining a significance level. Below are the main indicators of the Environmental Management Programme of LABORAL Kutxa and Lagun Aro based on the results of this evaluation.

	LABORAL K.		Seguros LA
Paper consumption kg	2018	2019 (1)	2018
Promotional paper	106,578	130,785	64,425
Office paper	272,922	282,081	1,052
Total paper consumption	379,500	412,866	65,477

(1) 2019 shows the joint data of LABORAL Kutxa and Lagun Aro.

All the paper consumed was environmentally friendly, chlorine-free paper.

In order to reduce the amount of paper used in customer communications, a significant drive has been made in recent years towards the use of new technologies and e-mail communications (Postamail)

Lagun Aro keeps track of the number of printouts made by employees in order to reduce their number and, therefore, the amount of paper used.

That is why the total weight of the toner has been added, which shows the savings that are being produced.

	LABORAL K.		Seguros LA
Toner consumption in units	2018	2019 (1)	2018
Total toner cartridge consumption	3,317	3,502	50
Cartridge consumption per person	1.51	1.57	0.30
Weight of toner used kg	2,438	2,602	

(1) LABORAL Kutxa and Lagun Aro

The impacts of the LABORAL Kutxa activity are limited. One of the most important is electricity consumption. Mondragón's central services are within the scope of ISO 14001 environmental certification and are actively managed:

	LABORAL K.		**Seguros LA**	
Year/Unit	**2018**	**2019**	**2018**	**2019**
Electricity consumption in Kwh / year Central Services	3,454,918	3,380,870	360,210	348,851
Electricity consumption in Kwh / year TOTAL LK	13,277,248	12,915,786		

Internal energy consumption A improved significantly with respect to the previous year, except for electricity consumption as a result of works.

External energy consumption B, the petrol used for travelling, entailed a consumption of 20,215 GJ (19,728 GJ in 2018). For Lagun Aro it was 1,426GJ in 2019 and 1,593GJ in 2018.

Energy intensity, measured as total energy consumption (including internal A and external B) among the total number of employees (LABORAL Kutxa and CLBS) was 32.37 in 2019 compared to 32.82 in 2018.

As noted above, significant efforts have been made in recent years to improve energy efficiency. The following is worth mentioning:

- The introduction of a geothermal system to air-condition the central services buildings.
- The construction of a biomass plant to meet the heating needs of the biomass. Both systems have made it possible to eliminate climate control using fossil fuels.
- Refurbishment of the insulation (low emission glass), equipment (LED) and machinery to increase the efficiency of air conditioning and lighting.

Climate change

LABORAL Kutxa's concern about the climate crisis is reflected in its adherence to initiatives such as the Global Compact, the SDGs, its commitment to the Paris agreements and, more recently, to the United Nations Principles for Responsible Banking. All of them commit us to carry out an analysis of the risks and opportunities of climate change, force us to introduce sustainability into the Entity's strategy and encourage us to make efforts to reduce the impact of our activity.

An aspect of particular relevance is the calculation of our business's carbon footprint.

	LABORAL K.		Seguros LA	
Breakdown of emissions by source. Carbon Footprint	2018	2019	2018	2019
Scope 1: Direct emissions	356	160	0	0
Scope 2: Indirect emissions	3,717	3,616	101	98
Scope 3: Other indirect emissions	963	1,069	81	70
Total emissions Tonnes of CO2	5,036	4,849	182	168

The Basque Government's Klima 2050 calculator was used to obtain this data in 2019, so the 2018 data has been reformulated from that shown in the previous Report.

The following were taken into account:

- For scope 1, consumption of diesel, propane and emissions of refrigeration gases.
- For scope 2, the total electricity consumption (CS, the office network and regional management buildings) was taken into account.
- For scope 3, we have taken into account emissions due to travel during work time, kilometres travelled by taxi, the emission resulting from paper consumption, electricity consumption of customers when using our website, waste management and water supply.

As previously stated, LABORAL Kutxa has made a continuous effort in recent years to combat and adapt to the consequences of climate change: investments, digitalisation, actions to improve energy efficiency… In addition, the following areas of action are planned for the coming years:

- During the strategic deliberation that took place in 2019, sustainability was introduced as an across-the-board strategic variable. Multi-year objectives have been set to reduce Co2 emissions and paper consumption, as well as the creation of green products and the further implementation of Socially Responsible Investment.
- Secondly and in parallel, since the beginning of 2019 work has been started on the concept of sustainable mobility. To this end, a staff mobility survey has been carried out. As a result, some areas for action have been proposed to move towards sustainable mobility and to reduce CO_2 emissions.
- As a result of the adoption of the United Nations Principles for Responsible Banking, an analysis of the impact of the climate crisis on LABORAL Kutxa's business will be carried out in 2020. It will analyse the impact of the direct and indirect risks to which it is exposed in its investment and credit portfolios. To this end, information is already being collected on the energy rating of homes and the fuel used by the vehicles being financed.
- Lastly, as mentioned above, in 2020 the Ekian project will be launched, the largest solar plant in the Basque Country, a project in which LABORAL Kutxa is one of the participating entities.

Protection of biodiversity

LABORAL Kutxa's financial activity does not affect biodiversity or impact on protected areas.

3.5. Our relationship with supplier companies

3.5.1. Management approach

The financial activity that we carry out, as well as the local presence in a very specific geographical area, means that the management risks of subcontractors and suppliers are not excessively important.

Nevertheless, LABORAL Kutxa, aware of the importance of supply chain management in the area of sustainability, has developed the following areas of action regarding suppliers during 2019:

1. With regard to occupational risk prevention, progress has been made in coordinating business activities. There are more than 300 work centres in LABORAL Kutxa where many people belonging to other companies come to perform professional tasks: subcontractors, works, maintenance… In 2018, a computer system was acquired and implemented that allows us to establish the controls and exchanges of information and documentation necessary to ensure that the people who come to our premises to carry out these activities meet all the established requirements. In 2019, progress was made in its implementation with the objective of covering all supplier companies.
2. The first phase of the supplier company management project to organise the purchase management of the different departments has been completed. As part of this project, the Corporate Social Responsibility Committee approved the following documentation that fully demonstrates LABORAL Kutxa's desire to work with its supplier companies in an ethical and sustainable manner:
    1) Responsible purchasing policy of LABORAL Kutxa.
    2) Supplier code of ethics.
    3) Code of conduct for responsible purchasing.

Given the characteristics of our supplier companies, it is not considered necessary to carry out audits on them on aspects not related to the characteristics of the product or service they provide. For this reason, supplier companies are currently not evaluated for environmental or social aspects, however, the impacts of their activity are considered to be low. In compliance with the precautionary principle, there are other factors that influence the selection of supplier companies, in addition to the origin, such as technical requirements, the characteristics of the product or service they provide and the price. At the same time, LABORAL Kutxa ensures compliance with social and employment legislation through a clause that it has in place:

- Compliance with employment, Social Security and occupational health and safety regulations.
- The certified Management, Environmental and Occupational Health and Safety Systems also have procedures established for managing purchases and subcontracting, taking into account the requirements outlined for these systems.

In our area of activity, we only identify significant risks linked to non-compliance with human rights in relation to corruption risks and with our indirect actions to ensure compliance by companies that supply us. The activities related to these two aspects are described in the respective sections.

3.5.2. Main figures

	2018	2019
Purchase volume (thousands of euros)	173,369	166,229
% of goods and services purchased from local companies (2)	94.2%	96.4%
% of local suppliers of total	93.3%	93.4%
% of domestic purchases, not imported (1)	98.9%	99.5

(1) In 2019 LABORAL Kutxa had 17 supplier companies (1.08% of the total and representing 0.51% of the goods and services acquired), from outside Spain. These were all from European Union countries except 4 from the USA.
43.7% of the amount comes from what is known as the Traditional Network (CAV and Navarra).

(2) Local are the ones whose address is in a province where we have a presence through our network of offices.

3.5.3. Dialogue with suppliers

Regarding the dialogue with supplier companies concerning CSR, a questionnaire was sent to 98 supplier companies for the purposes of this Report. Companies were specifically chosen because their workers perform work within our premises. This included subcontractors and outsourcing companies. A response was received from 15 of them, who rated the importance of this Report as 8.5.

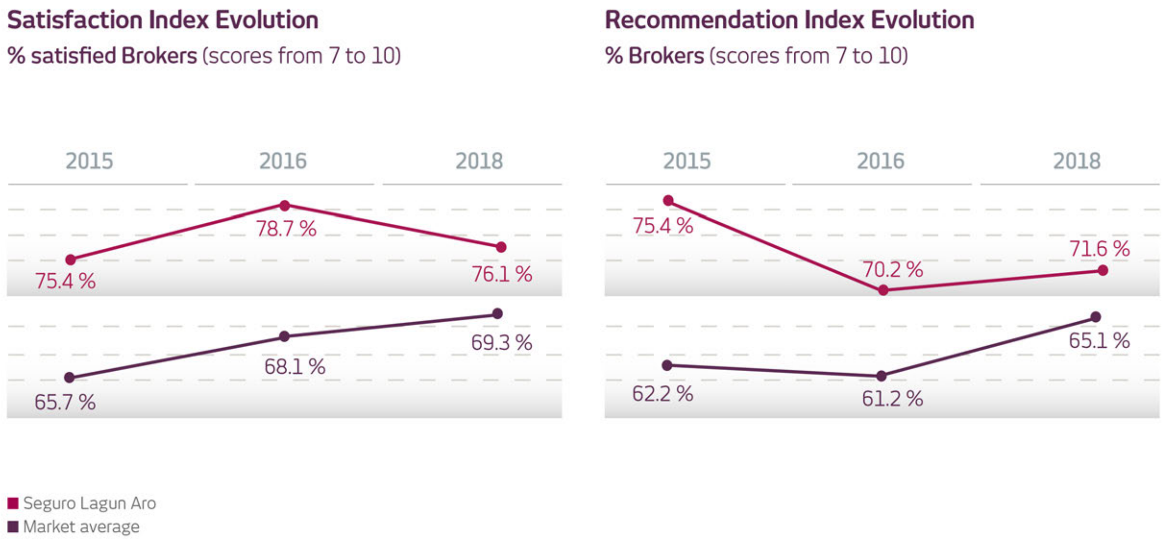
With regard to whether they produce a CSR report, 57% said that they do and another 29% said that they do not but that they plan to do so.

Also, as part of the supplier management project, an e-mail channel has been set up for our supplier companies to communicate with us to resolve any doubts they may have or to pass on any complaints or concerns.

In the area of suppliers, special attention should be paid to the **mediation channel** of Lagun Aro. From the perspective of insurance companies, brokers and agents are stakeholders in their own right, given their importance to the business. At Group level they are not considered as such, but even so they are suppliers with whom a specific relationship has been established:

- Their satisfaction and the degree to which their expectations are met is analysed:

In 2018 we continue to have a high level of satisfaction from our brokers, above the market average, as can be seen below*:



- Regular channels of communication are maintained with them:

RECOGNITION AND TRAINING FOR OUR BROKERS

On March 7 we held the BROKERS' CONVENTION at the AIC (Automotive Intelligence Centre) in Boroa. Our best brokers enjoyed a day of recognition in an environment where we could witness the changes taking place in the automotive sector.
*The members of the **SPECIAL CLUB** received two training days in July and October. On the 10th and 11th the consultant, Julio Eloy Paez, offered a very dynamic presentation on Planning and Optimising Time. On 29 October, Javier Sierra, a specialist consultant in the insurance sector, gave a training course on how to bring commercial value to all the jobs in the brokerage firm, all of which was very much appreciated by our brokers.*

3.5.4. Initiatives developed during the year for responsible supplier management

During 2019, LABORAL Kutxa has developed the following action plans with regard to suppliers:

- With respect to occupational risk prevention, as mentioned above, progress has been made in implementing the computerised management system. In order to analyse their degree of compliance, all external personnel who come to Central Services are periodically checked for compliance with the controls and the necessary exchange of information and documentation. For 2020, the objective is to link the system to the access control so that no subcontractor can enter our premises without having the up-to-date documentation. In the same way, we intend to improve the control of the subcontractors that have access to our branch offices.
- Within the supplier companies management project, development of the computer application that will now serve as the basis for contracting suppliers for the entire Bank has been completed. After a trial and adjustment period during the latter part of the year, it has been compulsory to use it for purchasing goods and services since January 2020.

The purchasing procedure requires supplier companies to adopt the Supplier code of ethics. By signing the Code, they are committing themselves to environmental, human rights and equality, anti-money laundering and anti-corruption and data protection principles and obligations.
In addition, the new application distinguishes three types of supplier companies according to their geographical origin:

- Close companies: those that are based in the Basque Autonomous Community.
- Local Companies: those that are not close but whose headquarters are in a province where LABORAL Kutxa has a physical presence (branch office).
- Others.

During 2020 the objectives of this project are:

- To ensure the full implementation of the procedure.
- To evaluate this implementation by detecting possible areas for improvement.
- To consider a second phase of the procedure. Among other possible steps forward, evaluate the possibility of implementing sustainability criteria when selecting suppliers: local purchase, environmental certifications, equality, etc…

4.

OTHER FIGURES

4.1. Customers

Based on the key business areas (Credit and Insurance), each portfolio is detailed below. The profile of credit customers is as follows:

Loans by sector (M of euros)	2018	2019
Public sector	**201.4**	**773.2**
Other Resident Sectors	**13,344.2**	**13,444.8**
National Economies	10,433.2	10,470.0
- Mortgages	9,837.7	9,818.3
- Consumer financing	362.1	410.6
- Others	233.4	241.2
Companies	2,422	2.379
Other Loans	488.9	595.8
Non-Resident Credit	**41.8**	**30.6**
Total Credit to Gross Customers	**13,587.4**	**14,248.7**
Value adjustments due to asset impairment	-352.8	-289.6
Total Credit to Net Customers	**13,234.6**	**13,959.1**

The geographical distribution of LK customers is as follows:

Geographical area	Credit investment		Deposits	
	2018	2019	2018	2019
Bizkaia	30.90%	25.06%	34.31%	33.02%
Gipuzkoa	18.35%	15.43%	29.27%	27.98%
Araba	11.46%	8.03%	14.41%	11.31%
Nafarroa	12.22%	9.75%	10.19%	9.63%
Burgos	2.68%	2.49%	1.08%	1.66%
Madrid	3.53%	3.30%	1.01%	1.01%
Valladolid	4.15%	3.91%	2.21%	2.11%
Zaragoza	6.71%	5.05%	1.76%	1.65%
Others	5.43%	26.98%	5.77%	11.63%
TOTAL	100%	100%	100%	100%

The CLBS Customer profile as at 31/12/2019 is as follows:

Category	Insured men			Insured women		
	No. Policies	Average capital	Average Age	No. Policies	Average capital	Average Age
Life Risk	44,794	46,567	46	40,592	45,536	45
Early Partial Redemption	30,768	4,528	45	15,158	4,279	47
Early Partial Redemption	5,302	62,164	40	5,010	59,218	40
Home owner	62,302	-	54	46,469	-	54
Landlord/Landlady	6,672	-	56	5,486	-	56
Tenant	3,064	-	48	3,259	-	47

Customer Service

Customer Service - Amounts claimed (thousands of euros)	2018	2019
Amounts for cases resolved in favour of the Company	1,627	1,150
Amounts for cases resolved in favour of the customer	44	69
Indemnities paid by the Company	44	68
Amounts returned to Customers by the Company, no payment due	0	1
Amounts compensated or refunded by third parties	0	0
Total	**1,671**	**1,218**

Meanwhile, during 2019, the large-scale legal actions against the Entity were received for the following three main reasons:

- Those due to the trading of Eroski and Fagor's Subordinated Financial Contributions, which between 2014 and 2016 were the largest number, continued to fall, settling at 13 in 2019 (0 in the last three months), which represents 56% of the few that entered in 2018, 11% for 2017 and 1% for 2016.
- Those due to the floor clauses in mortgage loans have fallen to 177, being 19% of those that entered in 2018 and 39% for 2017.
- And those arising from the costs incurred in the formalisation of mortgage loans, which amounted to 2,252 in 2019, a reduction of 10% compared to 2018.
- Lastly, 68 other claims have been received for other causes.

Reason for opening cases (SAC)	2018	2019
Centralised customer services	3%	3%
Commissions and expenses	71%	73%
Economic terms	16%	14%
Missing or inaccurate information	one%	0%
Coverage of needs	0%	one%
Information missing or incorrect	two%	3%
Aspects of customer relations	one%	two%
Campaigns in general	0%	0%
ATMs	one%	two%
Amount of the claims	**2018**	**2019**
≤ €100	28.03%	24.43%
> €100 ≤ €250	4.95%	3.62%
> €250 ≤ €1,000	32.91%	54.76%
> €1,000	34.11%	17.19%

The claims presented through the various available channels have been:

	2018	2019
No. of claims submitted to the Claims Service of the Bank of Spain in relation to product safety (1)	2	0
No. of claims in which BoS has pronounced in favour of LABORAL Kutxa	1	0

Claims related to the fraudulent use of means of payment and phishing.

	2018	2019
No. of claims submitted to the Claims Service of the Bank of Spain, DGS, CNMV and UNACC regarding information on products and services (1)	12 (2)	23
No. of claims in which BoS and CNMV have pronounced in favour of LK	9	10

(1) Claims related to incorrect information or bad advice, mainly information about all types of fees and costs (account maintenance, overdraft, etc.).

(2) 290 claims referring to formalisation costs and/or archived floors in favour of LABORAL Kutxa must be added to this figure.

	2018	2019
No. of claims submitted to the Claims Service of the Bank of Spain and the CNMV in relation to the advertising of products and services and privacy.	3	0
No. of claims in which BoS and CNMV have pronounced in favour of LABORAL Kutxa	3	0
Cost of fines for non-compliance with regulations on the provision and use of services.	0	0

	2018	2019
Penalties imposed on the Group (euros) for non-compliance with laws and regulations	14,400	40.001

Both amounts correspond to penalties from the Data Protection Agency (DPA).

Lagun Aro	2018	2019
Open cases (claims and complaints)	721	695
No. of claims submitted to the Insurance and Pension Funds D.G. Claims Service	23	30
% of closed cases estimated or partially estimated	46.2%	49.9%
Average response time (days)	9.86	10.35
Amount of payments in favour of the customer €	123,100	115,758
% final reports received from supervisor (total or partial) in favour of the claimant	18.4%	3.2%
CLBS	**2018**	**2019**
Open cases (claims and complaints)	16	10 (1)
% of closed cases estimated or partially estimated	15.8%	0%
Average response time (days)	2.47	0.44
Amount of payments in favour of the customer €	0	0

(1) The 10 claims submitted were addressed to other Entities, so they were inadmissible.

Main figures for responsible products and services

	2018		2019	
	No.	Thousand €	No.	Thousand €
Micro-credits	1,447	22,709	1,127	17,795
Personal Loan	356	1,765	283	1,032
Mortgage Loan	0	0	0	0
Insured Cards	291,794	-	273,147	-
Erkide Loan	0	0	1	1.3
FCTC Loan	0	0	0	0
CEPES / ASLE Loan	1	5	0	0
Social Econ. EaSI Loans	103	9,563	282	25,297

The volume of these agreements in 2018 and 2019 was as follows:

Public Organisation (thousands of euros)	No. of operations formalised		Amount formalised		Balance available as at 31/12	
	2018	2019	2018	2019	2018	2019
ICO	0	0	0	0	9,999	7,559
Basque Government	11	11	1,797	4,635	101,234	90,409
Government of Navarra	0	0	0	0	105,080	94,981
Government of Castille and Leon	0	0	0	0	7,291	6,572
Central Government	0	0	0	0	53,341	48,082
Araba Provincial Council	0	0	0	0	359	235
Gipuzkoa Provincial Council	0	0	0	0	547	465
SPRI-AFI	0	0	0	0	18,233	13,959
Other Agreements	314	267	1,348	981	3,230	2,817
Sum	**325**	**278**	**3,145**	**5,616**	**299,313**	**265,080**
MGS	**270**	**570**	**38,893**	**41,643**	**149,809**	**153,073**

Customers using new channels	2018	2019
No. of CLNet contracts	650,120	677,920
Customers active on CLNet	395,930	430,504
% active customers based on contracts	60.9%	63.5%
Mobile Banking (users who have accessed via mobile)	299,334	342,528
Alerts (active contracts)	360,980	377,360
Bizum	94,308	160,014

4.2. People

Partner workforce of LK by sex and professional category*	2018				2019			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	22	1.3%	5	0.3%	17	1.0%	6	0.4%
Managers	246	14%	121	6.9%	236	14%	120	7.1%
Technicians	316	17.9%	359	20.4%	307	18.1%	356	21.0%
Clerical staff	144	8.2%	280	15.9%	122	7.2%	248	14.6%
Others	161	9.1%	108	6.1%	167	9.8%	116	6.8%
Total	889	50%	873	50%	849	50%	846	50%
Active partners	1,762				1,695			

*The categories included in the different Professional Groups are the following:

- Directors: Dir. General, Area Dir., Regional Dir. and Dept. Directors.
- Managers: Section Managers, Area Managers and Branch Managers.
- Technicians: CS Techs., Office Managers and Technicians (Sales Managers).
- Clerical staff: 1st Officers, 2nd Officers, Administrative Assistants and Operators.
- Others: D.D.O.P.V.

LK workforce by age	2018		2019					
	Partner	Remainder	Partner			Remainder		
			Men	Women	Total	Men	Women	Total
Up to 30	14	89	1	3	4	43	73	116
Between 31 and 40	410	49	122	218	340	17	43	60
Between 41 and 50	853	8	430	428	858	8	4	12
Between 51 and 60	453	3	273	189	462	2	1	3
Over 60	32	0	23	8	31	0	0	0
Total workforce	1,762	149	849	846	1,695	70	121	191

CLBS workforce by sex, prof. category and business area	2018				2019			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	1	0.6%	0	0%	1	0.6%	0	0%
Managers	8	4.5%	2	1.1%	8	4.7%	2	1.2%
Technicians	0	0%	6	3.4%	0	0%	6	3.5%
Sales managers	29	16.4%	131	74%	30	17.5%	124	72.5%
Total workforce	38	21.5%	139	78.5%	39	22.8%	132	77.2%
Central Serv.	2	1.1%	7	4%	2	1.2%	6	3.5%
Commercial Network	36.	20.3%	132	74.6%	37	21.6%	126	73.7%
Total workforce	38	21.5%	139	78.5%	39	22.8%	132	77.2%
Total workforce	177				171			

CLBS workforce by age	2018	2019		
		Men	Women	Total
Up to 30	0	1	0	1
Between 31 and 40	3. 4	3	21	24
Between 41 and 50	96	21	76	97
Between 51 and 60	47	14	35	49
Over 60	-	0	0	-
Total workforce	177	39	132	171

Lagun Aro staff by sex and prof. category	2018				2019			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	5	3%	1	one%	4	8%	2	4%
Managers	14	8%	11	7%	14	26%	12	2. 3%
Technicians	3. 4	twenty%	53	32%	31	58%	50	94%

Clerical staff	4	two%	44	27%	4	8%	46	87%
Total workforce	57	33%	109	67%	53	33%	110	67%

Staff of Lagun Aro by age	**2018**		**2019**	
	M	**W**	**M**	**W**
Up to 30	0	1	0	1
Between 31 and 40	7	14	5	11
Between 41 and 50	21	59	18	59
Between 51 and 60	29	3. 4	29	38
Over 60	0	1	1	1
Sum	**57**	**109**	**53**	**110**
Total workforce	**166**		**163**	

All of Lagun Aro's workers are indefinite.

The entire CLBS workforce, except one, has a permanent contract, being distributed between the LABORAL Kutxa Head Office and the business network. There is a temporary man, under 30, who is a business manager. The entire workforce in Lagun Aro is permanent.

Contractual relationship LK (situation as at 31/12)	2018			2019		
	Total	Men	Women	Total	Men	Women
Active partners	*1,762*	*889*	*873*	*1,695*	*849*	*846*
Leave of absence	28	8	20	27	2	25
Secondment	15	6	9	15	5	10
Early retirees	161	120	41	161	110	51
Company contracts	1,967	1,023	943	1,898	966	932
Temps. Full-time	142	44	98	182	63	119
Temps. Part-time	1	0	1	3	1	2
Temporary Contracts	143	44	99	185	64	121
Indefinite Contracts	6	6	0	6	6	0
Total workforce as at 31/12	2,116	1,073	1,042	2,089	1.036	1,053
Lagun Aro contractual relationship	166	57	109	163	53	110

LK contracts by age as at 12/31	2018						2019					
	Total	Up to 30	31-40	41-50	51-60	> 60	Total	Up to 30	31-40	41-50	51-60	> 60
Active partners	*1,762*	14	410	853	453	32	*1,695*	4	340	858	462	31
Leave of absence	29	*1*	*16*	*8*	*2*	*2*	*27*	1	20	5	1	-
Secondment	15	-	5	7	3	-	*15*	1	6	4	4	-
Early retirees	161	-	-	-	143	18	*161*	-	-	-	121	40
Company contracts	1,967	15	431	868	601	52	1,898	6	366	867	588	71
Temps. Full-time	142	88	49	4	1	-	182	113	50	10	8	1
Temps. Part-time	1	1	-	-	-	-	3	3	-	-	-	-
Temporary Contracts	143	89	49	4	1	-	185	116	50	10	8	1
Indefinite Contracts	6	-	-	4	2	-	6	-	-	1	3	2
Total workforce	2,116	104	480	876	604	52	2,089	122	416	878	599	74

Workforce by location (LK and CLBS)	2018				2019			
	Partners	Employee	Women	Men	Partners	Employee	Women	Men
Central Services	398	37	219	216	401	42	227	216
Individuals	30	0	13	17	27	0	12	15
Insurance	30	0	9	21	28	0	10	18
Company	90	1	24	67	91	1	24	68
Reg. Network 1	578	69	384	263	546	95	383	258
Reg. Network 2	636	42	323	355	602	53	311	344
Total 31/12	1,762	149	972	939	1,695	191	967	919

The entire workforce of Lagun Aro works in central services.

Terminations/leave and annual turnover of working partners in LK	2018	2019
Terminations/leave in the year:	124	117
Voluntary and Public Office Leave	6	2
Leave Caring for children/family	37	43
Retirement	8	6
Death or Disability	4	4
Voluntary Resignation	2	5
On secondment	0	2
Early retirees	67	55
Terminations of Women in the year	63	45
Terminations of Men in the year	61	72
Total departure rate (*)	6.70%	6.64%
Directors departure rate	16.7%	18.52%
Managers departure rate	5.7%	5.18%
Technicians departure rate	6.2%	7.56%
Clerical staff departure rate	7.5%	6.06%
Women departure rate	6.76%	8.13%
Women < 30 departure rate	0%	0.23%
Women > 30 departure rate	6.76%	7.90%
Men’s departure rate	7.09%	5.06%
Men < 30 departure rate	0%	0.00%
Men > 30 departure rate	7.09%	5.06%

(*) The departure rate is calculated based on the number of people leaving during the year and the total number of active members at the end of the previous year. Neither departures or turnover of members by area are considered, instead they are dealt with in an aggregate manner.

In 2018 and 2019 there were no involuntary departures.

Terminations and annual turnover in CLBS	2018	2019
Terminations/leave in the year:	22	8
Leave Caring for children/family	5	1
Retirement	1	0
Disability	0	1
Agreed end of contract	11	0
Voluntary Resignation	3	5
End of contract	0	0
Dismissals	2	1
Terminations of Women in the year	15	6
Terminations of Men in the year	7	2
Total departure rate	12.02	4.68%
Women departure rate	10.48	4.32%
Men’s departure rate	17.5	5.13%

* All departures, both men and women, are over 30 years.

Terminations and annual rotation of Working Partners in Lagun Aro	2018	2019
Terminations/leave in the year:	8	5
Voluntary Resignation	0	0
Others	8	5
Terminations of Women in the year	4	2
Terminations of Men in the year	4	3
Total departure rate *	4.82	3.07%
Women departure rate	3.67	1.82%
Men's departure rate	7.01	5.66%

**Total departures, for both men and women, are people over 30.

In LABORAL Kutxa there have been no dismissals in the last two years.

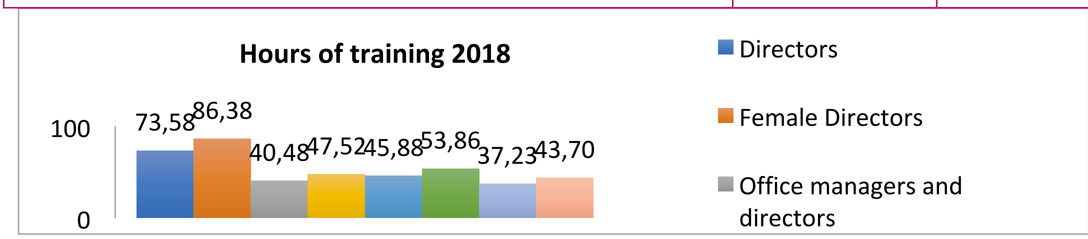
Dismissals in CLBS:

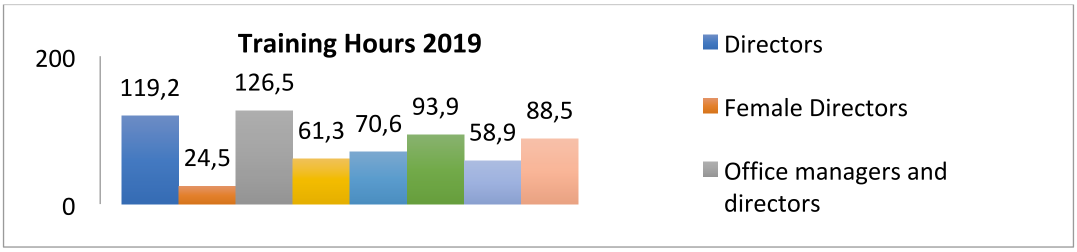
2018			2019		
Sex	Age	Category	Sex	Age	Category
M	59	GES	W	58	GES
M	61	GES	-	-	-

Dismissals at Seguros Lagun Aro:

2018			2019		
Sex	**Age**	**Category**	**Sex**	**Age**	**Category**
W	47	Administrative staff	M	58	Director
M	59	Director	M	58	Manager
M	62	Director	W	60	Specialist
M	60	Specialist	W	60	Administrative staff
-	-	-	M	46	Administrative staff

Training in LABORAL Kutxa and CLBS	**2018**	**2019**
Number of courses	415	456
Hours of training	87,333	168,298
Hours of training/person	41.71	81.38
Partner	41.85	83.27
Temporary	40.26	62.15
Average training in hours by category (individually)		
Directors	71.12	71.83
Office Managers and Directors	39.13	93.90
Technicians	44.35	82.26
Clerical staff	35.99	73.70





Training in Seguros Lagun Aro	2018	2019
Hours of training	4,752.4	3,737.3
Women	2,608.5	2,567.8
Men	2,143.9	1,169.5
Hours of training/person	28.6	20.31
Directors	964.3	620
Office Managers and Directors	1,385	643
Technicians	2,378.6	2,311.3
Clerical staff	24.5	163

The proportion between participants on courses by sex (women / men) in 2019 was 1.1 compared to 1.61 in 2018.

The percentage of different people trained was 99% in 2019 and 2018.

Regarding the promotion index, understood as an improvement in the structural wage index, in 2019 it was 7.09%. Including other non-structural concepts such as seniority, this rises to 28.21% (5.45% and 36.61% in 2018).

LK average employment index	2018	2019
Women	2.19	2.21
Men	2.51	2.50
Difference M/W	14.5%	13.2%

*The average employment index was 2.36, which was equivalent as at 31/12/19 to €2,937.47 gross per month.

LK average employment index	2018		2019	
	M	W	M	W
Direct.	4.83	3.95	4.80	3.95
Manager	2.84	2.70	2.84	2.72
Specialist	2.37	2.20	2.36	2.20
Admin.	2.07	1.93	2.10	1.95

LK pay by age	2018		2019	
	Man	Woman	Man	Woman
Up to 30	42,711	33,420	- (1)	36,147
Between 31 and 40	40,792	34,251	41,218	35,604
Between 41 and 50	47,327	40,240	47,171	40,378
Between 51 and 60	52,991	43,495	50,664	44,691
Over 60	56,217	41,640	51,581	43,149

(1) There are no men under 30.

Average employment index CLBS	2018	2019
Women	2.07	2.12
Men	2.70	2.68
Difference M/W	30.4	26.4%

Average employment index CLBS	2018		2019	
	M	W	M	W
Direct.	3.33	-	3.34	- (1)
Manager	3.18	3.37	3.46	3.39
Specialist	2.83	2.60	0.00	2.66
Mngr.	2.51	2.03	2.45	2.07

(1) There are no female directors.

Remuneration at CLBS by age	2018		2019	
	Man	Woman	Man	Woman
Up to 30	-*	-*	1.27	-*
Between 31 and 40	2.12	1.99	1.95	2.08
Between 41 and 50	2.51	2.06	2.47	2.12
Between 51 and 60	3.24	2.09	3.25	2.14
Over 60	-*	2.15	-*	-*

*There are no people in this range.

Lagun Aro average salary	2018	2019
Women	47,141	47.294
Men	65,554	64,517
Difference M/W	39.06%	36.42%

Salary by sex and professional cat. (€ thou.)	2018		2019	
	Men	Women	Men	Women
Directors	100.6	81.3	99.5	79.63
Managers	74.1	67.3	74.5	68.66
Technicians	60.6	51.51	59.27	50.13
Clerical staff	37.42	36.25	45.3	37.5

Remuneration at LABORAL ARO by age	2018		2019	
	Man	Woman	Man	Woman
Up to 30	0	37,448	0	38,106
Between 31 and 40	50,693	38,926	48,012	34,465
Between 41 and 50	62,569	47,350	64,954	47,200
Between 51 and 60	71,302	50,723	67,467	50,977
Over 60	0	61,913	91,874	63,216

The data relating to absenteeism in the Group are presented below.

Hours and absenteeism rate	2018	Men	Women	2019	Men	Women
Accident and Illness	117,184	42,384	74,800	111,443	41,856	69,587
Maternity	22,918	-	-	20,653	-	-
Paternity	3,998	-	-	4,858	-	-
Other*	5,669	-	-	2,874	-	-
Total Hours AbsenteeismLK	149,769	-	-	139,828	-	-
Absenteeism RateLK	3.85	2.76	4.96	3.80	2.83	4.79
Absenteeism Rate Lagun Aro	4.57	4.03	0.55	3.89	0.36	4.01
Total hours absenteeism Lagun Aro	nd	-	-	1,607	-	-
Absenteeism rateCLBS	5.65	3.68	6.19	4.99	3.40	8.24
Total hours absenteeism CLBS	nd	-	-	16,281	-	-

* Care of sick children

The following is information regarding accidents in the Group.

LK and CLBS work accidents	**2018**	**2019**
Accidents	38	46
Accident frequency(1)	4.49	3.22
Accident severity(2)	0.23	0.05
Accidents Lagun Aro	0	0

(1) Accumulated no. of accidents with sick leave *1,000,000 / h. worked
(2) hours lost due to accident *100/h. theoretical to be worked

Out of the accidents in 2018, 17 are women and of those in 2019, 18. Most of the accidents take place travelling to or from work. There is no data on frequency and severity disaggregated by sex.
There are no occupational illnesses in our activity for the Group.

4.3. Environment

Postamail Users	2018	2019
Number of users.	543,231	568,282
% Users from total customer base	47.33%	50.62%

		LABORAL K.		Seguros LA
Paper consumption kg		2018	2019 (1)	2018
Promotional paper/customer		0.093	0.116	0.18
Office paper/customer		0.238	0.251	0.003
Total consumption/customer	0.331	0.323	0.368	0.18
Total paper consumption/person		181.75	184.56	394.44

The 2019 data includes LABORAL Kutxa and Lagun Aro

Energy (Gj)	2018	2019	Seguros LA 2018	Seguros LA 2019
Electricity	47,798	46,497	1,297	1,256
Diesel	54.2	20.9	0	0
Propane	0.49	0.47	0	0
Energy consumption A	47,853	46,518	1,297	1,256
Energy consumption/pers.	22.92	22.43	7.8	7.7

The data presented corresponds to all LABORAL Kutxa, as well as all the staff.

The intensity of the greenhouse gas emissions, measured as the total CO2 emissions among the LK workforce would be 2.55 in this case, compared to 2.69 in 2018.

5. INFORMATION ON THE REPORT

Report Profile

The 2019 Report is the sixth CSR Report presented by the entity resulting from the integration in 2012 of Caja Laboral and Ipar Kutxa and refers to a full year. Since 2005, the former Caja Laboral published annual CSR reports.

LABORAL Kutxa wishes to continue publishing its CSR Report on an annual basis, in accordance with the guidelines laid down by the GRI. The LABORAL Kutxa CSR Report for 2019 was prepared following the "comprehensive" option of the GRI Standards and the Financial Sector Supplement, both from the GRI. When choosing the comprehensive option, all the indicators related to the material aspects identified should be answered.

This report also complies with the provisions of Law 11/2018 of 28 December on non-financial information and diversity, also taking into account the Communication from the European Commission 2017/C 215/01 on Guidelines for the presentation of non-financial reports.

It concerns the consolidated Group and includes both banking and insurance activities. Information regarding the two insurance companies will be given jointly. For the rest of the companies, due to their organisation and activity, the information is included with that of LABORAL Kutxa, unless there is a specific aspect that requires separate reporting.

In addition, LABORAL Kutxa maintained significant information in terms of sustainability relating to:

- Real estate asset management companies, which are companies through which LABORAL Kutxa manages the real estate business. They are instrumental companies, so their data and impacts are integrated into those of LABORAL Kutxa.
- Caja Laboral BancaSeguros (CLBS) is an independent broker, 100% owned by LABORAL Kutxa, the underlying purpose of which is to integrate the insurance activity into the business and commercial strategy of LABORAL Kutxa. Its workers are hired employees.

The service that LABORAL Kutxa provides to CLBS is the cession of the distribution network for the mediation of insurance products. As it is integrated in LABORAL Kutxa, many of the indicators of its activity are integrated. Those aspects for which there are independent indicators are listed throughout the Report.

LABORAL Kutxa is a member of MONDRAGON. MONDRAGON is made up of 266 autonomous and independent companies and co-operatives that use their own reporting systems.

Scope of GRI indicators and aspects

In accordance with the established cover, there are no limitations in LABORAL Kutxa's 2019 CSR Report to the scope established by GRI, except for:

- For indicators that could not be covered due to the lack of a measurement system, in which case they have been identified in the Report and in the GRI Indicator Table, and an effort will be made to measure them in future Reports.
- For the indicators that do not apply due to their scarce or even null relevance or materiality in the activity of a financial entity and the economic, political and social context of the Entity and the limitations of which are specified in each of the indicators.

All indicators for which it has not been possible to provide detailed information for the above-mentioned reasons will be indicated in the Report.

Starting with the 2014 Report, a materiality analysis is included in order to determine the most relevant issues in the field of Social Responsibility. This analysis has been carried out with the advice of Cegos Deployment, a company with which LABORAL Kutxa cooperates regularly to guarantee the correct understanding of the Global Reporting Initiative - GRI guidelines. The results of this analysis are described in the Materiality Analysis section of part 2.

Policy regarding the verification of the Report

AENOR has been carrying out the verification of CSR Reports prepared by the former Caja Laboral since 2005. Given the knowledge that the verifying organisation has acquired over all these years of relations, LABORAL Kutxa, through the Financial Area, plans to continue with this verification system in the future.

Contact

Access the LABORAL Kutxa website *www.LABORALkutxa.com* on the corporate website, in its Reports and relevant facts section, the following are available:

- Financial Report
- Individual and Consolidated Annual Statements
- Corporate Governance Report
- Transparency Information
- CSR Reports
- Non-Financial Information Statement

In the Contact section, you can send any type of suggestion, complaint, claim, opinion, etc. To access additional information or topics related to this Report, please send an e-mail to the following address: *RSE@LABORALkutxa.com*

6. ANNEXES

6.1. Table of equivalencies

Non-financial information to be reported:	Chapters/section of the Annual Report_Page	Correspondence/GRI Indicators
Brief description of the group's business model (including its business environment, organisation and structure, the markets in which it operates, its objectives and strategies, and the main factors and trends that may affect its future development).	About us_Presentation of the Group About us_ Business model	GRI 102-1 GRI 102-2 GRI 102-3 GRI 102-4 GRI 102-6 GRI 102-7 GRI 102-14 GRI 102-15
A description of the policies applied by the group that will include: the due diligence procedures applied for the identification, evaluation, prevention and mitigation of significant risks and impacts, and verification and control procedures, including the measures in which they have been adopted.	About us_Principles and government	GRI 103-2 GRI 103-3
The results of these policies, which should include relevant non-financial key performance indicators that allow progress to be monitored and evaluated and that allow comparisons to be made between companies and sectors, in accordance with the national, European or international reference frameworks used for each area.	Responsible Management_Scorecard Customer Management_ Main Figures Our relationship with staff _ Main figures Our relationship with society_Main figures Responsible environmental management_ Main figures Responsible management of suppliers_ Main figures	GRI 103-2 GRI 103-3
The main risks related to issues linked to group activities (business relationships, products or services) that may have an adverse effect on these areas, and how the group manages these risks, explaining the procedures used to detect and evaluate them in accordance with the national, European or international reference frameworks for each area. Information should be included on the impacts that have been identified, broken down, and especially on the main risks in the short, medium and long term.	About us_ Risk Management and Strategy Responsible Management_ Materiality Analysis Responsible Management_Commitment to Sustainability Responsible Management_Scorecard	GRI 102-15 GRI 102-30
Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, on health and safety, the evaluation procedures or environmental certification; the resources dedicated to the prevention of environmental risks; the application of the precautionary principle, the amount of provisions and guarantees for environmental risks.	About us_ Risk Management and Strategy About us_Principles and Government Responsible environmental management_ Management approach	GRI 102-29 GRI 102-31 GRI 201-2 GRI 103-2 (GRI of the environmental dimension) GRI 102-11 GRI 102-29 GRI 102-11
Pollution:		
Measures to prevent, reduce or remedy carbon emissions that seriously affect the environment, taking into account any activity-specific form of pollution of the atmosphere, including noise and light pollution.	Responsible environmental management_ Pollution Responsible environmental management_Use of resources	GRI 103-2 (GRI 302 and 305)
Circular economy and waste prevention and management:		
Measures for prevention, recycling, reuse, other forms of waste recovery and disposal; actions to combat food waste.	Responsible environmental management_ Circular economy and waste prevention and management	GRI 103-2 (GRI 306) GRI 301-2 GRI 306-1
Sustainable use of resources:		
Water consumption and supply in accordance with local limitations	Responsible environmental management_Use of resources	GRI 303-1
Consumption of raw materials and the measures adopted to improve the efficiency of their use.		GRI 103-2 (GRI 301) GRI 301-1 GRI 301-2
Energy: Consumption, direct and indirect; Measures adopted to improve energy efficiency, use of renewable energy.		GRI 103-2 (GRI 302) GRI 302-1 GRI 302-3
Climate change:		
Important elements of the greenhouse gas emissions generated as part of business activity (including goods and services produced)	Responsible environmental management_Climate change	GRI 103-2 (GRI 305) GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-4
Measures adopted to adjust to the consequences of climate change.		GRI 103-2 (GRI 305) GRI 201-2
Reduction targets set voluntarily for the medium and long term to reduce GHG emissions and the means implemented to this end.		GRI 103-2 (GRI 305)
Protection of bioiversity:		
Measures adopted to preserve or restore biodiversity	The impacts caused by the direct activities of the LABORAL Kutxa consolidated Group on biodiversity are not material due to the financial and insurance activities performed by the Group.	GRI 304-2 GRI 306-5
Impacts caused by protected area activities or operations		
Employment:		
Total number and distribution of employees by gender, age, country and professional category	Our relationship with staff_Main workforce figures Other figures_workforce.	GRI 103-2 (GRI 401) GRI 102-8 GRI 405-1
Total number and distribution of contract modalities and annual average of indefinite contracts, temporary contracts, and part-time contracts by: gender, age and professional category	Our relationship with Members_Main workforce figures Other figures_ workforce.	GRI 102-8 GRI 405-1
Number of dismissals by: gender, age and professional category.	Our relationship with staff_Main workforce figures. Other figures_Members	GRI 401-1
Average remuneration and its evolution disaggregated by: sex, age and professional classification.	Our relationship with Sla template_Main magnitudes of Partners Other figures_workforce.	GRI 405-2
Salary gap and compensation for equal or average jobs in society	Our relationship with staff_Main workforce figures. Other figures_workforce.	GRI 103-2 (GRI 405) GRI 405-2
Average remuneration of directors and executives (including variable remuneration, allowances, compensation, payment to long-term savings forecasting systems and any other payment broken down by gender	About us_Principles and Government	GRI 102-35 GRI 102-36 GRI 103-2 (GRI 405)
Implementation of work disconnection policies	Our relationship with staff _Main workforce figures.	GRI 103-2 (GRI 401)
Employees with disabilities	Our relationship with staff_Main workforce figures	GRI 405-1
Work organisation:		
Organisation of working time	Our relationship with staff_Personal development	GRI 103-2 (GRI 401)
Number of hours of absenteeism	Our relationship with staff _Main workforce	GRI 403-2

	figures Other figures_ workforce	
Measures to facilitate the enjoyment of work-life balance and to encourage parents to practice joint responsibility	Our relationship with staff _Work-life balance	GRI 103-2 (GRI 401)
Health and safety:		
Occupational health and safety conditions	Our relationship with staff _Occupational Health and Safety	GRI 102-41
Work accidents, particularly their frequency and severity, as well as occupational illnesses. Divided by gender.	Our relationship with staff _Main workforce figures Other figures_ workforce	GRI 403-2 GRI 403-3
Social relations:		
Organisation of social dialogue (including procedures for informing, consulting and negotiating with staff)	Our relationship with staff _Dialogue with workers	GRI 103-2 (GRI 402)
Percentage of employees covered by collective agreement by country	Our relationship with staff _ Main workforce figures	GRI 102-41
Balance of collective agreements (particularly in the field of occupational health and safety)	Our relationship with staff _Occupational Health and Safety	GRI 403-1 GRI 403-4
Training:		
The policies implemented in the field of training	Our relationship with staff _Development Our relationship with staff _Main workforce figures Other figures_ workforce	GRI 103-2 (GRI 404) GRI 404-2
Accessibility:		
Universal accessibility for people	Our relationship with staff _Diversity and equal opportunities	GRI 103-2 (GRI 405)
Equality:		
Measures adopted to promote equal treatment and opportunities between women and men; equality plans (Chapter III of Organic Law 3/2007, of 22 March, for the effective equality of women and men), measures adopted to promote employment, protocols against sexual and gender-based harassment, integration and universal accessibility of people with disabilities; a policy against all types of discrimination and, where appropriate, diversity management.	Our relationship with staff _Diversity and equal opportunities	GRI 103-2 (GRI 405 and 406)
Application of due diligence procedures in the field of Human Rights	Our relationship with staff _ Workforce management approach	GRI 102-16 GRI 102-17 GRI 103-2 (GRI 412) GRI 410-1 GRI 412-1 GRI 412-3
Prevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and remedy possible misconduct		
Complaints related to the violation of human rights		GRI 406-1
Promotion of and compliance with the provisions of the International Labour Organisation's fundamental treaties relating to respect for freedom of association and the right to collective negotiation.		GRI 103-2 (406, 407, 408 and 409)
Measures adopted to prevent corruption and bribery	1. About us_Principles and Government	GRI 102-16 GRI 102-17 GRI 103-2 (GRI 205) GRI 205-1 GRI 205-2 GRI 205-3
Measures to counter money laundering		
Contributions to non-profit organisations and foundations		GRI 413-1
The company's commitment to sustainable development		
The impact of the company's activity on local development and employment	Our relationship with society_Management Approach	
The impact of the company's activity on territorial and local populations	Our relationship with society_Management Approach	
The relations maintained with the actors of the local communities and the methods of dialogue established therewith	Our relationship with society_Dialogue with society	
Association or sponsorship actions	Our relationship with society_Dialogue with society	
Subcontracting and suppliers:		
Inclusion of the purchasing policy regarding social, gender equality and environmental issues	Responsible management of suppliers_Management approach	GRI 103-2 (GRI 204, 308 and 414)
Consideration in the relations with suppliers and subcontractors of their obligations	Responsible management of suppliers_Management approach	GRI 102-9 Supply Chain GRI 103-2 (GRI 204, 308 and 414) GRI 204-1 GRI 308-1 GRI 414-1
Supervisory and audit systems and resolution thereof	Responsible management of suppliers_Management approach	GRI 103-2 (GRI 204)
Consumers:		
Measures for the health and safety of consumers	Customer management_Responsible customer management	GRI 103-2 (GRI 416, 417 and 418) GRI 416-1 GRI 417-1 G4-FS15
Claims systems and complaints received and resolution thereof	Customer Management_Main customer figures Customer management_Dialogue with customers Other figures_Customers	GRI 102-17 GRI 103-2 (GRI 416, 417 and 418) GRI 416-2 GRI 417-2 GRI 418-1
Tax information:		
Profits obtained country by country	1. About us_Main Group Figures	GRI 103-2 (GRI 201)
Taxes obtained on benefits paid		
Public grants received		GRI 201-4
Any other relevant information:		

6.2. Table of GRI indicators

Any indicators that directly affect those areas that according to the materiality matrix are considered to be of high or medium-high relevance are displayed with a blue background.

ORGANISATION PROFILE

102-1	Name of the organisation.	Caja LABORAL Popular Coop. de Crédito
102-2	Activities, brands, products and services.	8-9 Presentation of the Group 38-39 Responsible products and services Refer to Website www.LABORALkutxa.com
102-3	Location of the organisation's main offices.	José Mª Arizmendiarrieta s / n. 20500 Arrasate - Mondragón (Gipuzkoa)
102-4	State the number of countries in which the organisation operates.	LABORAL Kutxa operates exclusively in the Spanish State
102-5	Property regime and legal form.	Caja Laboral Popular Coop. de Crédito
102-6	Specify which markets are served (with a geographical breakdown, by sector and type of customers and recipients).	12 Geographic distribution 36 management approach and Main customer figures 80-81-82 Other customer figures
102-7	Determine the scale of the organisation, indicating: Number of people employed Number of operations Net sales or net income Capitalisation, broken down in terms of debt and equity Quantity of products or services offered	13-14 Main Figures of the Group
102-8	Determine: Number of people employed by contract type and gender. Number of permanent employees by contract type and region Staff size by employed persons, contracted workers and gender. Indicate whether a substantial part of the organisation's work is carried out by legally recognised self-employed persons or by persons who are neither employees nor contract workers, such as persons employed and sub-employed hired by contractors.	83-89 Other figures-People
102-9	Describe the organisation's supply chain.	76 Our relationship with supplier companies
102-10	Report any significant changes during the period under review in the size, structure, shareholding or supply chain of the organisation.	5-6 Letter 9-10 Operating structure 14-17 Risk management and strategy 9 Investee Companies 76 Our relationship with supplier companies
102-11	Describe how the organisation addresses, if applicable, the precautionary principle.	14-17 Risk management and strategy 17-20 Principles and Government 26-27 Management Approach Risks are generally managed by the Governing Board's Risk Committee and the Risk Appetite Framework, and are reported annually in the Information with Prudential Relevance. Environmental risks are managed within a system certified with ISO 14001: 2015. Risks for customers of new products come under the scope of the Products Committee
102-12	Prepare a list of letters, principles or other external initiatives of an economic, environmental and social nature that the organisation endorses or has adopted.	67-69 Initiatives endorsed by LABORAL Kutxa
102-13	Prepare a list of national and international associations and organisations to which the company belongs.	

STRATEGY

102-14	Statement from the organisation's chief decision-maker.	5-6 Letter
102-15	Main impacts, risks and opportunities.	14-17 Risk management and strategy 31-33 Materiality 28-29 Commitments and Achievements 30-31 CSR Scorecard

ETHICS AND INTEGRITY

102-16	Describe the values, principles, standards and regulations of the organisation.	11-12 Values, principles, standards and codes of conduct
102-17	Describe the internal and external advisory mechanisms for ethical and lawful conduct, and for consulting on matters related to the integrity of the organisation. Describe the internal and external mechanisms for reporting unethical or illegal conduct and matters related to the integrity of the organisation.	21-22-23 Corruption and bribery 38 Customer Service

GOVERNANCE

102-18	Describe the organisation's governance structure, including the committees of the highest governing body. Identify the committees responsible for making decisions on economic, environmental and social issues	9-10 Operating Structure 17-20 Corporate Governance 36-37 Dialogue with customers 31-32 Materiality analysis Refer to Corporate Governance Report
102-19	Describe the process by which the highest governing body delegates its authority to senior management and certain employees on economic, environmental and social matters.	
102-20	Process for submitting accounts to the Board	
102-21	Processes for consulting with stakeholders	
102-22	Describe the composition of the highest governing body and its committees.	
102-23	Executive or non-executive nature of the highest governing body.	
102-24	Describe the appointment and selection processes for the highest governing body and its committees, as well as the criteria on which the appointment of the members of the former is based.	Refer to Corporate Governance Report
102-25	Describe the processes the highest governing body follows to prevent and manage potential conflicts of interest. Indicate whether the stakeholders are informed in this regard.	15-18 Corporate Governance Refer to Corporate Governance Report
	Role of the highest governing body in the selection of objectives, values and strategy	
102-26	Describe the roles of the highest governing body and senior management in the development, approval,	17-20 Corporate Governance

	and updating of the organisation's purpose, values or mission statements, strategies, policies, and objectives with respect to economic, environmental, and social impacts.	11-12 Values, principles, standards and codes of conduct Refer to Corporate Governance Report
	Collective knowledge of the highest governing body	
102-27	Specify the measures adopted to develop and improve the collective knowledge of the highest governing body in relation to economic, environmental and social matters.	21 Development of the governing bodies
102-28	Describe the processes for evaluating the performance of the highest governing body in relation to the governance of economic, environmental and social affairs. State whether the evaluation is independent and how often it is carried out. Specify whether it is a self-evaluation. Describe the measures adopted as a result of the performance assessment of the highest governing body in relation to the management of economic, environmental and social affairs; among other aspects, specify at least whether there have been changes in members or in organisational practices.	17-20 Corporate governance Refer to Corporate Governance Report.
102-29	Describe the role of the highest body in identifying and managing economic, environmental and social impacts, risks and opportunities. Also outline the role of the highest governing body in implementing the due diligence processes. Indicate whether the stakeholders are approached for input in the work of the highest governing body in the identification and management of economic, environmental and social impacts, risks and opportunities.	
102-30	Describe the role of the highest governing body in analysing the effectiveness of the organisation's risk management processes with respect to economic, environmental and social issues.	
102-31	Indicate the frequency with which the highest governing body analyses economic, environmental and social impacts, risks and opportunities.	
	ROLE OF THE HIGHEST GOVERNING BODY IN THE PREPARATION OF THE SUSTAINABILITY REPORT	
102-32	Identify the most important committee or position that reviews and approves the Sustainability Report and ensures that all significant aspects are addressed.	17-20 Corporate governance
	ROLE OF THE SENIOR BODY IN THE EVALUATION OF ECONOMIC, ENVIRONMENTAL AND SOCIAL PERFORMANCE	
102-33	Describe the process for bringing important concerns to the attention of the highest governing body.	17-20 Corporate Governance
102-34	State the nature and number of significant concerns that were transmitted to the highest body, including a description of the mechanisms that were used to address and assess them.	49 Dialogue with staff In the annual report to the Governing Board regarding CSR activities, the relevant activities were identified
	REMUNERATION AND INCENTIVES	
102-35	Describe the remuneration policies for the highest governing body and senior management. List the performance criteria that affect the remuneration policy with the economic, environmental and social objectives of the highest governing body and senior management.	21 Remuneration of the Governing Bodies Refer to Consolidated Annual Statement p.33
102-36	Describe the processes used to calculate remuneration. Specify whether consultants are used to determine remuneration and whether they are independent with respect to the management. Indicate any other type of relationship that such compensation consultants may have with the organisation.	56-57 Remuneration management 21 Remuneration of the Governing Bodies See prudential relevance report
102-37	Explain how stakeholders' views on remuneration are sought and taken into account, including, where appropriate, the results of votes on policies and proposals	17-20 Corporate governance 56-57 Remuneration management
102-38	Calculate the correlation between the total annual remuneration of the highest paid person in the organisation and the average total annual remuneration of the entire workforce (not including the highest paid individual).	56-57 Remuneration management
102-39	Calculate the correlation between the percentual increase of the total annual remuneration of the highest paid person and the percentual increase of the average total annual remuneration of the entire workforce (not including the highest paid individual).	

PARTICIPATION OF STAKEHOLDERS

102-40	Create a list of stakeholders related to the organisation.	28-29 Commitments and achievements The stakeholders are examined annually in the materiality study. 31-33 Materiality 36-37 Dialogue with customers 49 Dialogue with People 49 Joint Negotiation 66 Dialogue with Society
102-41	Percentage of employed persons covered by collective agreements.	
102-42	Indicate the grounds for the choice of stakeholders with which the organisation works.	
102-43	Describe the organisation's approach to stakeholder engagement, including the frequency of collaboration with different types of stakeholders, or whether a group was specifically involved in the reporting process.	
102-44	Identify key issues and problems that have arisen from stakeholder engagement and describe the organisation's assessment, including through its Report. Specify which stakeholders were involved in each of the key issues and problems.	

MATERIAL ASPECTS AND COVERAGE

102-45	Prepare a list of the entities appearing in the organisation's consolidated financial statements and other equivalent documents Indicate whether any of the entities listed in the organisation's consolidated financial statements and other equivalent documents are not included in the Report.	9 Investee Companies
102-46	Describe the process followed to determine the content of the Report and the scope of each Aspect. Explain how the Reporting Principles have been applied to determine the Content of the Report.	91 Report Profile 31-33 Materiality
102-47	Prepare a list of material Aspects that were identified while defining the contents of the Report.	31-33 Materiality
102-48	Describe the consequences of the reformulations of the information provided in previous Reports and their causes.	The changes that have taken place are described throughout the Report
102-49	Mention any significant change in the scope and coverage of each aspect with respect to previous Reports.	91 Report Profile

102-50	Period covered by the Report.	Year 2019
102-51	Date of the last Report (if applicable).	Report for 2018 published in May 2019
102-52	Reporting cycle (annual, biennial).	91 Report Profile
102-53	Provide a point of contact to resolve any doubts that may arise regarding the contents of the Report.	On the Web page: www.LABORALkutxa.com or mail: rse@LABORALkutxa.com
	GRI INDEX	
102-54 102-55	Indicate which option you have chosen "in accordance" with the Guide. Provide the GRI index of the chosen option. Give reference to the External Verification report if this has been performed.	1 Cover 94-101 GRI Indicators Last page. AENOR Verification and reporting level
	VERIFICATION	

102-56	Describe the organisation's policy and current practices with regard to external verification of the Report. If not mentioned in the verification report attached to the Sustainability Report, please indicate the scope and basis of the external verification. Describe the relationship between the organisation and the companies providing the verification. Indicate whether the highest governing body or senior management have been involved in the request for external verification of the organisation's sustainability Report.	91 Report Profile The Director of the Financial Area approved the request for verification of the Report.

MANAGEMENT APPROACH

103-1	Specify the coverage of the organisation for each significant aspect.	31-33 Materiality 14-17 Risk management and strategy
103-2 103-3	Management approach and its components Evaluation of the management approach.	13-14 Main figures 26-27/36/48-49/61-62/69-70 Management approach 31-33 Materiality 14-17 Risk management and strategy

CATEGORY: ECONOMY

	Aspect: economic performance	
201-1	Direct economic value generated and distributed.	14-15 Main Figures
201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	38-41 Environmentally Responsible Products and Services. 71-72 Transparency in fossil fuel exposure 74-75 Climate change
201-3	Scope of obligations arising from the benefits plan.	56-57 Remuneration management 61 Coop. Returns Capitalised
201-4	Financial aid granted by government entities.	14 Grants
	Aspect: market presence	
202-1	Correlation between the initial salary broken down by gender and the local minimum wage.	56-57 Remuneration management
202-2	Percentage of senior managers from the local community	17-20 Corporate governance
	Aspect: indirect economic impacts	
203-1	Development and impact of investment in infrastructure and types of services	69-70 Our relationship with the Environment 62-64 Gaztenpresa 14 Taxes and duties
203-2	Significant indirect financial impacts and their scope.	64-65 Indirect Contributions to Society
	Aspect: Acquisition practices	
204-1	Percentage of the expenditure in places with significant operations that corresponds to local suppliers.	77 Main figures-suppliers

Aspect: the fight against corruption

205-1	Number and percentage of centres where Risks related to corruption have been assessed and risks identified.	21-23 Corruption and bribery
205-2	Anti-corruption communication and training policies and procedures	53 Training in Anti-Corruption Procedures 21 Development of the governing bodies 21-23 Corruption and bribery
205-3	Confirmed cases and measures taken	21-23 Corruption and bribery 24 Regulatory compliance

Aspect: unfair competition practices

206-1	Number of claims of unfair competition, monopoly or anti-competitive practices and their outcome	There were no claims or legal actions in the years covered by the Report

CATEGORY: ENVIRONMENT

Aspect: materials

301-1	Materials USED by weight or volume.	73-74 Sustainable use of resources
301-2	Percentage of the materials used that are recycled materials.	73-74 Sustainable use of resources
301-3	Percentage of products sold and their packaging materials that are recovered at the end of their useful life, by product category.	The physical component of financial products is not significant.

Aspect: energy

302-1	Internal energy consumption.	73-74 Sustainable use of resources
302-2	External energy consumption	73-74 Sustainable use of resources 74-75 Climate change
302-3	Energy intensity	73-74 Sustainable use of resources
302-4	Reduction in energy consumption.	73-74 Sustainable use of resources
302-5	Reductions in the energy requirements of products and services.	38-41 Environmentally Responsible Products and Services.

.... Aspect: water

303-1	Total water harvesting according to the source.	73-74 Sustainable use of resources
303-2	Water sources that have been significantly affected by water harvesting.	There were no affected water sources detected
303-3	Percentage and total volume of recycled and reused water.	Water is not recycled or reused

.... Aspect: biodiversity

304-1	Own, leased or managed business units that are adjacent to, contain or are located in protected (or unprotected) areas of high biodiversity value.	LABORAL Kutxa's financial activity does not affect biodiversity or impact on protected areas.
304-2	Description of the most significant impacts on the biodiversity in protected areas or in unprotected high biodiversity areas, derived from the activities, products and services.	LABORAL Kutxa's financial activity does not affect biodiversity or impact on protected areas.
304-3	Protected or restored habitats.	
304-4	Number of species included in the IUCN Red List and in national conservation lists whose habitats are in areas affected by the business, according to the level of danger of extinction of the species.	

Aspect: emissions

305-1 305-2	Total direct and indirect greenhouse gas emissions by weight	74-75 Climate change
305-3	Other indirect greenhouse gas emissions, by weight.	74-75 Climate change
305-4	Intensity of greenhouse gas emissions	89 Other figures-Environment
305-5	Reduction in greenhouse gas emissions.	69-70 Our Relationship with the Environment 74-75 Climate change

305-6	Emissions of ozone-depleting substances	No ozone-depleting substances are produced, imported or exported.
305-7	NO, SO and other significant atmospheric emissions.	Emissions of this type are the result of air conditioning systems and are not considered to be significant.
	Aspect: effluents and waste	
306-1	Total wastewater discharge, according to its nature and destination.	72-73 Circular economy and waste prevention and management
306-2	Total weight of managed waste, according to type and method of treatment.	72-73 Circular economy and waste prevention and management
306-3	Number and total volume of significant accidental spills	No significant accidental spills were detected
306-4	Weight of transported, imported, exported or treated waste deemed hazardous under Annexes I, II, III and VIII of the Basel Convention and percentage of the waste transported internationally	We do not work with the type of waste defined in the indicator
306-5	Identification, size, protection status and biodiversity value of water bodies and related habitats significantly affected by discharges and runoff from the organisation.	No effect on biodiversity from water discharges or runoff waters has been detected
	Aspect: regulatory compliance	
307-1	Cost of significant fines and number of non-monetary sanctions for non-compliance with environmental regulations.	The cost of fines and penalties in the years covered by the Report was 0.
	Aspect: environmental assessment of supplier companies	
308-1	Percentage of new supplier companies that were examined based on environmental criteria	76 Our relationship with supplier companies
308-2	Significant actual and potential negative environmental impacts in the supply chain and measures taken	
	CATEGORY: EMPLOYMENT	
	Aspect: employment	
401-1	Number and rate of recruitment and average turnover of people employed, broken down by age group, sex and region.	83-89 Other figures - Workforce
401-2	Social benefits for full-time employees which are not offered to temporary or part-time employees, broken down by key activity locations.	60 Social Benefits
401-3	Return to work and retention rates after maternity or paternity leave, broken down by sex.	83-89 Other figures - Workforce
....	Aspect: management-employee relations	
402-1	Minimum notice period for operational changes and possible inclusion of these in collective agreements.	There is no collective agreement in the cooperative. Although neither the Internal Regulations nor the internal employment regulations expressly establish a minimum period of notice for informing working partners of job or workplace changes, major organisational or operational changes must be submitted to the Social Council.
	Aspect: occupational health and safety	
403-1	Percentage of the workforce that is represented on formal joint health and safety committees for management and staff, established to help monitor and advise on H&S programmes	58-59 Occupational Health and Safety
403-2	Type and rate of injuries, occupational illnesses, days lost, absenteeism and number of work-related fatalities by region and by sex	58-59 Occupational Health and Safety
403-3	Personnel whose profession has a high incidence or risk of illness.	Given the financial nature of the business, there are no occupational illnesses or high risks of illness.
403-4	Health and safety issues covered in formal agreements with trade unions.	58-59 Occupational Health and Safety
	Aspect: training and education	
404-1	Average hours of training per year per employee, broken down by sex and by professional category	83-89 Other figures - Workforce
404-2	Skills management and continuing education programmes that promote employability and help manage the end of their professional careers.	51-52 Continuing education programmes
404-3	Percentage of people who receive regular performance and career development reviews, broken down by sex and by professional category	52-53 Performance Management-Bidean
	Aspect: diversity and equal opportunities	
405-1	Composition of the governing bodies and breakdown of the workforce by professional category and sex, age, membership of minority groups and other diversity indicators.	83-89 Other figures - Workforce 17-20 Corporate Governance
405-2	Ratio of basic salary of men to women, broken down by professional category and key business locations.	56-57 Remuneration management 83-89 Other figures - Workforce Equal pay for equal work, regardless of whether male or female
	Aspect: non-discrimination	
406-1	Number of cases of discrimination and corrective measures taken.	No incidents of discrimination occurred during the period covered by the Report
	Aspect: freedom of association and collective bargaining	
407-1	Identification of significant centres or supplier companies where freedom of association and the right to enter into collective agreements may be violated or under threat, and measures taken to defend these rights.	Both LABORAL Kutxa and practically all its supplier companies are based in Spain. This means that, by law, human rights must be respected, including the freedom of association and collective bargaining.
	Aspect: child labour	
408-1	Identification of centres and supplier companies that entail a potential risk of incidences of child exploitation, and the measures adopted to contribute to the abolition of such exploitation.	Both LABORAL Kutxa and practically all its supplier companies operate solely in Spain. This means that, by law, human rights must be respected, including the non-exploitation of children.
	Aspect: forced labour	
409-1	Centres and Supplier Companies with a significant risk of being the source of incidences of forced labour, and the measures adopted to contribute to the elimination of all forms of forced labour.	Both LABORAL Kutxa and practically all its supplier companies operate solely in Spain. This means that, by law, human rights must be respected, including forced labour
	Aspect: security measures	
410-1	Percentage of security staff who have received training on the organisation's human rights policies or procedures as they apply to the business.	LABORAL Kutxa hires its security staff through authorised external companies, who guarantee that 100% of the people employed for the job are properly trained.
	Aspect: rights of the indigenous population	
411-1	Number of cases of violation of the rights of indigenous people and the measures taken	This indicator is not applicable, as the geographical area of LABORAL Kutxa is Spain
	Aspect: assessment	

412-1	Number and percentage of centres that have undergone human rights impact assessments or reviews	There have been no reviews of activities in aspects related to human rights, since the risk of their violation is very low or non-existent.
	Aspect: local communities	
413-1	Percentage of centres where programmes for development, impact assessment and local community participation have been implemented	65-66 Profit sharing 31-33 Materiality
413-2	Business centres with significant actual or potential negative effects on local communities	No activities with a negative or potential impact on local communities have been identified.
	Aspect: assessment of supplier companies in relation to human rights	
414-1	Percentage of new supplier companies that were examined based on social criteria	There were no human rights assessments of the various suppliers and subcontractors because, a priori, no supplier companies were identified that, due to the volume of purchases in question, the type of business they were engaged in or their location, might pose a significant human rights risk. Nevertheless, as already stated, LABORAL Kutxa aims to make progress in defining a system for evaluating suppliers from a social and environmental point of view, in line with the principles of the Global Compact
414-2	Significant actual and potential negative social impacts in the supply chain and the measures taken.	
	Aspect: public policy	
415-1	Value of political contributions, by country and recipient	65 Relations with Government Agencies and Political Parties
	Aspect: health and safety of customers	
416-1	Percentage of significant product and service categories for which health and safety impacts have been assessed to promote improvements	36-48 Our relationship with customers 42-43 Responsible products and services
416-2	Number of incidents arising from non-compliance with regulations or voluntary codes concerning health and safety impacts of products and services during their life cycle, broken down by type of outcome	81 Sanctions 80-82 Customer Service
…………………….	Aspect: labelling of products and services	
417-1	Type of information required by the organisation's procedures relating to the information and labelling of its products and services, and percentage of significant product and service categories that are subject to such requirements	All the products and services of LABORAL Kutxa are subject to the regulations of the Bank of Spain and the Spanish National Securities Market Commission (CNMV) with regard to information about them and their form of marketing, which guarantees transparency in these procedures. Furthermore, the MIFID regulations are applied to protect the customer (classification, test, information, etc.). 36-48 Our Relationship with Customers
417-2	Number of failures to comply with regulations and voluntary codes concerning product and service information and labelling, broken down by type of result.	81 Sanctions 80-82 Customer Service
417-3	Number of cases of non-compliance with regulations or voluntary codes in relation to marketing communications, such as advertising, promotion and sponsorship, broken down by type of result	81 Sanctions 80-82 Customer Service
	Aspect: customer privacy	
418-1	Number of substantiated complaints about violation of privacy and leaking of customer data	81 Sanctions 80-82 Customer Service
	Aspect: regulatory compliance	
419-1	Cost of significant fines due to non-compliance with regulations and legislation concerning the supply and use of products and services	81 Sanctions 80-82 Customer Service 24 Regulatory Compliance
	PRODUCT PORTFOLIO	
FS1	Description of the policies with specific environmental and social content applied to the business areas	28-29 Commitments and achievements 62-64 Gaztenpresa Foundation 44-45 Socially Responsible Investment 69-75 Our relationship with the environment
FS2	Description of the procedures for evaluating and selecting the social and environmental risks in each of the policies described above and applied to the business areas.	53-56 Diversity and Equal Opportunities 44-45 Socially Responsible Investment 69-75 Our relationship with the environment
FS3	Description of the procedures for ensuring and controlling compliance with the social and environmental requirements by the customers included in the contracts or transactions	There is no system for monitoring and controlling our customers after the event, due to the location of our activities and the projects we finance
FS4	Description of the process(es) to improve the skills of employees for implementing environmental and social policies and procedures as they apply to business areas	63-56 Our relationship with the Environment
FS5	Description of the interactions with customers and other stakeholders in terms of risk management and environmental and social opportunities	36-37 Dialogue with Customers 49 Dialogue with People 66 Dialogue with Society
FS6	Percentage of the portfolio for each of the business areas broken down by region, size and business sector	12 Geographic distribution of offices 36 Main customer figures 80-82 Other figures - Customers
FS7	Monetary value of products and services designed to provide a specific social benefit in each of the business areas and broken down by social objectives	42-48 Socially Responsible Products and Services
FS8	Monetary value of products and services designed to provide a specific environmental benefit in each of the business areas and broken down by environmental objectives	46 Loans for Renewable Energies
FS9	Audit coverage and frequency for assessing the degree of implementation of policies and procedures for social and environmental risk management.	91 Report Profile 53-56 Our relationship with the environment
FS10	Percentage and number of companies within the Organisation's portfolio with which the Organisation has interacted on social and environmental matters.	36-37 Dialogue with customers 76 Our relationship with supplier companies
FS11	Percentage of assets subject to positive and / or negative environmental and social screening	71 Environmental risk assessment 44-45 Socially Responsible Investment
FS12	Voting policies applied to social or environmental issues where the reporting organisation holds the right to voting actions or voting recommendations	Not applicable due to the type and legal form of the Organisation
FS13	Access to financial services in depopulated/disadvantaged areas by type of access.	46 Accessibility to Financial Services
FS14	Initiatives to improve access to people with disabilities	46 Architectural barriers and access via Internet and mobile phone.
FS15	Policies regarding the fair design and marketing of financial products and services	LABORAL Kutxa follows strict regulations when designing and marketing products. It also has a Code of Conduct. 36-37 Our Relationship with Customers 38-41 Responsible management with customers
FS16	Initiatives to expand financial culture, broken down by types of beneficiaries	47-48 Financial Culture 68 Financial education 62-64 Gaztenpresa Foundation 64-65 Indirect contributions to society

6.3. Reporting level of the Report

LABORAL Kutxa declares this Report to be comprehensive in terms of the application of GRI Standards, according to the table above, given that this is confirmed by the results of the external verification by AENOR. The location of each of the basic contents of the GRI Standards Guide is detailed below.

6.4. AENOR verification

AENOR

Declaración de Verificación de Información No Financiera

declaración de Verificación de AENOR para

CAJA LABORAL POPULAR COOP. DE CRÉDITO

relativa al estado consolidado de información no financiera **MEMORIA DE SOSTENIBILIDAD Y ESTADO DE INFORMACIÓN NO FINANCIERA 2019**

conforme a la ley 11/2018

correspondiente al ejercicio anual finalizado el 31 de diciembre 2019

La validez de esta declaración de verificación externa e independiente está supeditada a la presentación del acta de aprobación de la formulación del Estado de Información No Financiera verificado firmada por todos los Administradores de la sociedad obligada.

En Madrid a 24 de febrero de 2020

Rafael García Meiro
Director General

2013/0863/VNOF-2020

AENOR INTERNACIONAL S.A.U. C/ GÉNOVA 6, 28004 MADRID
Página 1 de 5

AENOR

VERIFICACIÓN DE LA MEMORIA DE SOSTENIBILIDAD

VMS-2020/0005

AENOR ha verificado la Memoria de la organización

CAJA LABORAL POPULAR, COOP. DE CREDITO LTDA.

TITULADA: MEMORIA DE SOSTENIBILIDAD Y ESTADO DE INFORMACIÓN NO FINANCIERA 2019

Conforme con:	Estándares GRI
Opción GRI aplicada:	Exhaustiva
Proceso de Verificación:	Para conceder este Documento de Verificación, AENOR ha comprobado la adecuación de la memoria a lo requerido por GRI y la correlación de los Estándares GRI con los ODS identificados por la organización, así como la veracidad de los datos e información contenidos en dicha memoria.
Fecha de emisión:	2020-02-24

Rafael GARCÍA MEIRO
Director General

AENOR INTERNACIONAL, S.A.U
Génova, 6. 28004 Madrid. España
Tel. 91 432 60 00.- www.aenor.com

APPENDIX II

ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES -OTHER THAN SAVINGS BANKS- WHICH ISSUE SHARES TRADED IN OFFICIAL MARKETS

DATA IDENTIFYING THE ISSUER

End date of the relevant financial year: 31/12/2019

CIF (Tax ID): F75076935

Corporate Name:

CAJA LABORAL POPULAR COOP. DE CREDITO

Registered address:

PS. JOSE MARIA ARIZMENDIARRIETA S/N (MONDRAGON) GIPUZKOA

ANNUAL CORPORATE GOVERNANCE REPORT 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	15.10

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 whether there are any restrictions (statutory, legislative or of any kind) on the transferability of securities and/or any restrictions on voting rights. In particular, notify the existence of any type of restrictions that may make it difficult to take control of the company by means of the acquisition of its shares on the market, as well as any systems of prior authorisation or communication that may be applicable to the company's acquisitions or transfers of financial instruments due to industry regulations:

[√] Yes
[ ] No

Description of the restrictions

In compliance with the provision of cooperative law, no legal entity member may have a capital share and/or vote of more than 20% and no natural person member may have a capital share and/or vote of more than 2.5%.

B. GENERAL COUNCIL OR EQUIVALENT BODY

B.1. List the quorum requirement for the general council or equivalent body established in the articles of association. Describe how it differs from the minimum member system stated in the Spanish Companies Act (LSC) or the regulations that apply to it.

In accordance with what appears in cooperative legislation, the General Meeting, regardless of the agreement to be adopted, is considered to be validly constituted, on first call, when more than half of the shareholders are present or represented and on second call when at least 5% of the shareholders or 100 shareholders attend.

B.2. Explain the system for adopting company resolutions. Describe how it differs from the system stated in the LSC or the regulations that apply to it.

Applying cooperative legislation, the motions must be adopted, as a general rule, by more than half of the validly cast votes. In the event of mergers, divisions, issue of debentures and other securities, and for amendment of the articles of association, a favourable majority is required of no less than two thirds of the votes present or represented.

B.3. Indicate briefly the motions adopted at meetings of the general council or equivalent bodies held during the year corresponding to this report and the percentage of votes with which these motions were adopted.

During the year the motions adopted by the General Meeting held on 6 April 2019, with their respective voting percentages, were as follows:

- Appointing 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).

- Approving the Non-Financial Information report for 2018 (unanimously).

- Paying interest on share capital (unanimously).

- Distributing the net surpluses from the year, allocating 10% to the Education and Promotion Fund, 15% to the Inter-cooperative Social Fund, 25% to Cooperative Returns and 50% to the Mandatory Reserve Fund (unanimously).

- From the Education and Promotion Fund, allocating 15% for local distribution, 17% for general distribution and 68% for financing Mondragon's cooperative institutions and contributions to the Inter-cooperative Education and Promotion Fund (unanimously).

- Approving income quotas and contributions to registered capital from new shareholders (unanimously).

- Establishing that the 2020 General Meeting will set the interest to be paid on the contributions to registered capital corresponding to 2019 and, nonetheless, authorising the Governing Board to make payments on account (unanimously).

- Extending the appointment of Price Waterhouse Cooper as auditors of the entity for the 2019 financial year (unanimously).

- Authorising the Governing Board to issue promissory notes, bonds and other fixed-income securities (unanimously).

- Partially renewing the members of the Governing Board (unanimously).

B.4. Indicate whether, at the general meetings or equivalent bodies held during the year, there were any items on the agenda that were not approved by the shareholders.

There were no items on the agenda that were not approved by the shareholders.

B.5. Indicate the address and how to access the entity website containing information on corporate governance.

The Corporate Governance content can be accessed from the home page of the general website (www.laboralkutxa.com) or from the entity's corporate website (http://corporativa.laboralkutxa.com) by clicking on the section "Corporate Governance and Remuneration Policy".

B.6. State whether meetings have been held for the different unions that might exist for holders of shares issued by the entity, the subject of the meetings held during the year referred to in this report and the main motions adopted.

There are no unions for holders of shares issued by the entity.

C. STRUCTURE OF THE COMPANY'S ADMINISTRATION

C.1. Board or administrative body

C.1.1 Give details of the maximum and minimum number of board members or members of the administrative body set forth in the articles of association:

Maximum number of board/body members	13
Minimum number of board/body members	12
Number of directors/members of the body established by the board or assembly	12

C.1.2 Complete the following table for the board or administrative body members and their different statuses:

Name or company name of the board/ administrative body members	Representative	Date of last appointment
MR TXOMIN GARCIA HERNANDEZ		30/09/2019
MS MARÍA LAURA RODRÍGUEZ GONZÁLEZ		30/09/2019
MS ELENA ZARRAGA BILBAO		30/09/2019
MR RICARDO PÉREZ AGUADO		30/09/2019
MS AINHOA GALLASTEGUI MARTÍNEZ		30/09/2019
MR XABIER SAGARNA ARRIZABALAGA		30/09/2019
MR LUIS MARIA UGARTE AZPIRI		27/07/2017
MR PABLO LUIS BRINGAS VELEZ		27/07/2017
MR FRANCISCO JOSE DEAN PUEYO		27/07/2017
MS ITZIAR ELGARRESTA IBARRONDO		27/07/2017
MS MARIA ESTHER KORTA ERRAZKIN		27/07/2017
MS NAGORE LARRABEITI LIBANO		27/07/2017

C.1.3 Identify, when appropriate, the board/administrative body members who take on positions as directors, representatives of directors or executives in other companies that form part of the entity's group:

Name or company name of the board/administrative body member	Corporate name of the group's entity	Position
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO, S.A.	CHAIR
MR TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO VIDA, S.A.	CHAIR

C.1.4 Complete the following table with information on the number of female members of the Board of Directors and its committees, as well as trends over the last four years:

	Number of female members							
	Year 2019		Year 2018		Year 2017		Year 2016	
	Number	%	Number	%	Number	%	Number	%
Administrative board	6	50.00	6	50.00	6	50.00	3	21.00
Audit Committee	2	50.00	2	67.00	2	67.00	2	67.00
Appointments Committee	2	40.00	2	40.00	2	40.00	0	0.00
Payments Committee	2	40.00	2	40.00	2	40.00	0	0.00
Risks Committee	4	67.00	3	60.00	3	60.00	2	40.00

C.1.5 Indicate whether the company has diversity policies regarding the company's administrative, management and supervisory bodies with respect to issues such as age, gender, disability, or professional training and experience. Small and medium sized organisations, in accordance with the definition provided in the Accounts Audit Law, will have to report, as a minimum, on the policy they have in place regarding gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

If yes, describe this diversity policy, its objectives, the measures and manner in which it has been implemented and its results during the year. The specific measures adopted by the governing body and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors must also be described.

If the company does not apply a diversity policy, explain the reasons why it does not do so.

With the aim of creating a suitably diverse group that contributes a variety of points of view and experiences so as to promote independent opinions and sound decision-making, the Entity complies with diversity policy requirements in accordance with the guidelines and regulations on the assessment of the suitability of members of the governing body and holders of key positions, taking into account aspects such as academic profile, professional profile, gender and age in the Governing Board's Selection, Appointment, Renewal and Diversity Policy and in the assessment and suitability processes..

It should be noted that, as at 31 December 2019, the minimum percentage established for the under-represented gender is exceeded given that gender parity is maintained in the composition of the Governing Board, the cooperative's highest administrative body, achieved in 2017.

Furthermore, in terms of selection and appointments and renewal of Senior Management members, Caja Laboral has a Succession Plan for key positions, which identifies the critical positions and the professional paths and profiles of origin for their replacement, establishing professional development plans for the people identified and succession plans for each of the positions. The identification of the key positions eligible for a succession plan, as well as of the people capable of becoming the future replacements for the current occupants of such positions, takes into account variables such as training, experience and knowledge, management track record, performance history, personal skills and abilities, commitment to the Entity, potential, etc.

In the 2019 financial year, new appointments to the management team have been approved and will be effective as of 1 January 2020.

C.1.6 Complete the following table regarding the aggregate salary of the board/administrative body members paid during the financial year:

Salary item	Thousands of Euro	
	Individual	Group
Fixed salary	137	
Variable salary	30	
Expenses		
Other payments		
TOTAL	167	

C.1.7 Identify the top management members that are not members of the board or administrative body and indicate the total payment made to them during the financial year:

Name or corporate name	Position
MR XABIER EGUIBAR GAINZA	General Manager
MR OSCAR EGUSKIZA SIERRASESUMAGA	Risks Director
MR JOSU ARRAIZA MARTÍNEZ DE LAGRAN	Media Director
MR IBON URGOITI URIOSTE	Business Development Director
MR ADOLFO PLAZA IZAGUIRRE	Director of the General Secretariat
MS NURIA AGUIRRE UNZUETA	Corporate Management Director
MS SUSANA ANDRÉS GORGOJO	Sales Manager Mendebaldea
MR JAVIER CORTAJARENA GOÑI	Sales Manager Ekia
MR JAVIER GORROÑOGOITIA ITURBE	Financial Management Director
Total senior management payments (in thousands of Euros)	1,144

C.1.8 Indicate whether the board's articles of association or regulations establish a limited mandate for the members of the board/administrative body:

[ ] Yes
[√] No

C.1.9 Indicate whether the individual and consolidated annual accounts that are presented for preparation to the board/administrative body have been previously certified:

[ ] Yes
[√] No

Identify, when appropriate, the person or persons that have certified the individual and consolidated annual accounts for the entity, for their formulation by the board or administrative body:

C.1.10 Explain, if they exist, the mechanisms established by the board or administrative body to prevent the individual and consolidated accounts they have formulated being presented at the general council or equivalent body with exceptions in the audit report.

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the supervision of the preparation and presentation of the regulated financial information and the supervision of the effectiveness of the internal control systems.

C.1.11 Is the secretary of the board or administrative body also a member of the board?

[√] Yes
[ ] No

C.1.12 Indicate, if they exist, the mechanisms established to maintain the independence of the external auditor, the financial analysts, the investment banks and the classification agencies, including how legal provisions have been implemented in practice:

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the task of establishing suitable relationships with the account auditors or audit companies in order to receive information regarding matters which may present a risk to their independence, requiring annual written confirmation of this independence. In this regard, the Audit Committee has issued a report in which it expresses an opinion confirming the independence of the external auditor, prior to the accounts audit report being issued.

C.2. Committees of the board or administrative body

C.2.1 List the committees of the board or administrative body:

Name of the committee	No. of members
AUDIT COMMITTEE	4
APPOINTMENTS COMMITTEE	5
REMUNERATION COMMITTEE	5
RISKS COMMITTEE	6

C.2.2 Describe all the committees of the board or administrative body, their members and the proportion of executive, shareholding, independent and other external board members of which they are comprised (the entities which do not have the legal form of a limited company will not fill in the category of the board member in the corresponding fields and will explain the category of each board member in the text section according to its legal regime and the way in which they meet the constitution requirements of the audit committee and of the appointments and remunerations committee):

Audit Committee		
Name	Position	Category
NAGORE LARRABEITI LIBANO	CHAIR	
MS ELENA ZARRAGA BILBAO	MEMBER	
MR RICARDO PÉREZ AGUADO	MEMBER	
MR XABIER SAGARNA ARRIZABALAGA	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	10

Explain the functions, including, where appropriate, those additional to the functions stipulated by law, attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Audit Committee's specific duties are those set out in the Articles of Association (art. 36.nine), that is to say:

a) To inform the General Meeting about the issues raised there by shareholders on matters within their competence.

b) To propose to the Governing Board, for submission to the General Meeting, the appointment, extension or termination of the external account auditors.

c) To supervise the internal audit services.

d) To be aware of the financial information process and the company's internal control systems.

e) To communicate with the external auditors to receive information about matters that could compromise their independence and any other information related to the accounts audit process, plus any other communication required by account auditing legislation and the technical audit standards. Each year, they must receive from the auditors a written confirmation of their independence vis-à-vis the Entity and entities directly or indirectly related to it, as well as information on additional services of any kind provided for these entities, in accordance with the audit regulations.

f) To issue an annual report, prior to the publication of the accounts audit report, expressing an opinion on the independence of the account auditors or audit companies. This report shall, in all events, give an opinion on the provision of the additional services, referred to in the previous paragraph.

Similarly, pursuant to Article 10.3 of the Regulations of the Governing Board, it is also responsible for supervising the process of preparing and presenting regulated financial information and supervising the compliance with codes of conduct and corporate governance rules.

The Articles of Association of the Company establish that the audit committee will meet whenever it is considered appropriate when called by its Chair or at the request of any of its members. Each of them has one vote and motions are adopted by simple majority and the vote of the Chair resolves ties.

With regard to the category of directors on the Committee, Nagore Larrabeiti (Committee Chairperson), Elena Zárraga and Xabier Sagarna are independent directors (75% of the total) and Ricardo Pérez is a working partner director (25% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

With regard to the most significant actions of the Audit Committee in 2019, the following are highlighted:

- It has supervised the process of preparing and presenting the financial information published by Caja Laboral, through the Internal Audit Department's releases, highlighting the following verifications:

- Review of the individual and consolidated financial accounts prepared by the entity and the corresponding management reports.

- Review of the quarterly consolidated public financial statements submitted to the Bank of Spain

- Review of the information on market transparency published twice a year by the entity

- Six-monthly review of the statement of equity submitted to the Bank of Spain

- Review of the prudential information published by the entity

- It has supervised the Financial Information Internal Control System (FIICS) through the review procedure established by the Internal Audit Department.
- It has supervised the review of the risk control and management system, through the reports of the Internal Audit Department, most notably the review of the Capital and Liquidity Self-Assessment Process carried out by the entity.
- It has supervised the process of preparing and presenting the Recovery Plan.
- It has supervised and evaluated the internal audit function, ensuring its independence and effectiveness, receiving regular information on the activities carried out by the Internal Audit Department.
- It has adopted the resolution to propose to the Governing Board, for submission to the General Meeting, the extension of the external audit contract, after evaluating the performance of the accounts auditor.
- It has monitored the result of the external audit, holding joint meetings with the external auditor, analysing and reviewing the aspects considered to be especially relevant.
- It has issued an opinion confirming the independence of the external auditors, prior to issuing the reports on the audit of the accounts.
- It has evaluated and approved, where appropriate, those services additional to the audit services that the entity proposed to outsource to the external auditor.

Identify the board members of the audit committee who have been appointed, taking into account their knowledge and experience in accounting and/or auditing, and provide the date on which the Chair of this committee was appointed to the post.

Name of the board members with experience	MS ELENA ZARRAGA BILBAO
	MR RICARDO PÉREZ AGUADO
Date the Chair was appointed to the post	04/01/2019

Appointments Committee		
Name	Position	Category
MS ITZIAR ELGARRESTA IBARRONDO	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR FRANCISCO JOSÉ DEAN PUEYO	MEMBER	
MS MARIA ESTHER KORTA ERRAZKIN	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	10

Explain the functions, including, where appropriate, those additional to the functions stipulated by law, attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Governing Board agreed, on 29 April 2016, to formally establish the Appointments Committee and the Remuneration Committee as separate Committees, modifying Article 11 of the Governing Board Regulations.

The specific duties of the Appointments Committee are those set out in the Governing Board's regulations (art. 11.b), i.e:

- To identify and recommend, with a view to their approval by the Governing Board or the General Meeting, candidates to fill vacancies on the Governing Board.
- To evaluate the balance of expertise, ability, diversity and experience of the Governing Board and to develop a description of the duties and aptitudes required for a specific appointment, evaluating the expected time commitment for the post.
- To regularly evaluate, at least once a year, the structure, size, composition and performance of the Governing Board, making recommendations to it regarding potential changes.
- To regularly evaluate, at least once a year, the suitability of the various members of the Governing Board and of the latter as a whole, and to report to the Governing Board accordingly.
- To regularly review the Governing Board's policy on the selection and appointment of senior management members and make recommendations.
- The functions assigned in the Selection and Suitability Assessment Procedure Manual for board members and key staff.
- To establish a target for the representation of the least represented sex in the Governing Board and develop guidance on how to increase the number of people of the least represented sex with a view to achieving this target.

The Regulations establish that the Appointments Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the Committee, Itziar Elgarresta (Committee Chair) and Esther Korta are independent board members (40% of the total), Pablo Luis Bringas and Francisco Jose Dean are working partner board members (40% of the total) and Txomin García is other external board member (20% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

With respect to the most important actions in 2019 of the Appointments Committee, the following are noteworthy:

- The continued evaluation of the suitability of the members of the Governing Board, General Management and Key function holders and assessment of the balance of knowledge, ability, diversity and experience on the Governing Board.
- Review of the Governing Board's policy on the selection, appointment and succession of members of senior management.
- Proposal of appointments with their respective suitability analyses.
- Analysing the application of the procedures followed for the selection and appointment of senior management members appointed in 2019.
- Update of the policy for selection, appointment, reappointment and diversity of the Governing Board.
- Coordinating the electoral process for the appointment of new board members.
- Evaluating and analysing the suitability of candidates for the Governing Board and preparing a report with recommendations for the Governing Board.
- Transposing the CNMV Technical Guide 1/2019 on Appointments and Remuneration Committees into internal procedures.
- Updating the Procedures Manual for the Selection and Evaluation of the Suitability of Directors and Key Function Holders.
- Proposing training initiatives for the Governing Board.

Remuneration Committee		
Name	Position	Category
MS MARIA ESTHER KORTA ERRAZKIN	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MR FRANCISCO JOSÉ DEAN PUEYO	MEMBER	
MS ITZIAR ELGARRESTA IBARRONDO	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	8

Explain the functions attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Governing Board agreed, on 29 April 2016, to formally establish the Appointments Committee and the Remuneration Committee as separate Committees, modifying Article 11 of the Governing Board Regulations.

The specific duties of the Remuneration Committee are those set out in the Governing Board's regulations (art. 11. c), i.e.:

- To propose to the Governing Board the general remuneration policy applicable in the entity and prepare the decisions to be taken by the Governing Board regarding remuneration, including those that have an impact on the risk and risk management of the entity.
- To report to the Governing Board on the remuneration policy for directorates included in the "identified group" as well as general remuneration of directors when they are remunerated for this position and for the General Manager and assimilated directors, as well as individual remuneration and other contractual conditions for members of the Governing Board who perform executive functions.
- To ensure that an independent, internal or external, annual evaluation of the implementation of the remuneration policy is carried out.

- To ensure compliance with the remuneration policy established in the company and to periodically review the remuneration policy applied to directorates included in the "identified group" when they are remunerated for such status and to the Managing Director and the like.

- To perform the other duties established by current legislation, the Articles of Association, as well as those assigned by the decision of the Governing Board.

The Regulations establish that the Remuneration Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the Committee, Esther Korta (Committee Chair) and Itziar Elgarresta are independent board members (40% of the total), Pablo Luis Bringas and Francisco Jose Dean are working partner board member (40% of the total) and Txomin García is an other external board member (20% of the total). There are no shareholding or executive directors on the Committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

With respect to the most important actions in 2019 of the Remuneration Committee, the following are noteworthy:

- Preparation of the report on the Governing Board's remuneration policy for approval at the General Meeting.
- Reporting to the Governing Board on the various remuneration proposals.
- Proposal for the application of Individual Variable Remuneration for the 2018 financial year for the members of the Identified Collective.
- Proposal for the formulation of 2019 IVR objectives for the members of the Identified Collective.
- Regulatory proposal for Individual Variable Remuneration for the 2019 financial year.
- Determining the composition of the Identified Collective and presentation of Annex VIII.
- Preparation of the annual report on the remuneration policy for approval by the Governing Board.
- Analysing the impact of the LCCI (Real Estate Credit Contract Law) on Caja Laboral's remuneration policy.
- Transposing the CNMV Technical Guide 1/2019 on Appointments and Remuneration Committees into internal procedures.

Risks Committee		
Name	Position	Category
MS ELENA ZARRAGA BILBAO	CHAIR	
MS NAGORE LARRABEITI LIBANO	MEMBER	
MR LUIS MARIA UGARTE AZPIRI	MEMBER	
MR TXOMIN GARCIA HERNANDEZ	MEMBER	
MS AINHOA GALLASTEGUI MARTÍNEZ	MEMBER	
MS MARÍA LAURA RODRÍGUEZ GONZÁLEZ	MEMBER	

% of executive board members	0.00
% of shareholding board members	0.00
% of independent board members	0.00
% of other external members	0.00
Number of meetings	7

Explain the functions attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The Risks Committee has the specific duties described in the Governing Board's regulations (art 11 bis) i.e.:

- To advise the Governing Board with regard to global risk propensity, current and future, of the entity and its strategy on this matter, assisting it in the monitoring of the application of this strategy and the specific policies of management, supervision and reduction of risks to which the entity is or may be exposed.

- To ensure that the assets and liabilities pricing policy offered to clients takes into account the business model and the risk strategy of the entity. Otherwise, to present the governing board with a plan to resolve this.

- To advise the Governing Board on the management and supervision of all the relevant risks of the entity.

- To advise the Governing Board regarding stress tests and capital planning in relation to risks.

- To ensure that suitable resources are assigned to risk management and the efficiency of the internal organisation.

- To ensure that there are efficient channels of information in terms of risks from the Governing Board to the organisation and vice versa, defining, together with the Governing Board, the nature, quantity, format and frequency of the information on risks which must be received by the committee and the Governing Board.

- To supervise the valuation of assets, the use of external credit classifications and the internal models regarding risks.

- To help establish rational remuneration practices and policies. To examine whether the incentives policy planned in the remuneration system takes into account the risk, capital, liquidity and probability and opportunity for profit.

The Regulations establish that the Risks Committee shall meet as many times as it is deemed appropriate at the call of its Chair, on their own initiative or at the request of any of its members. Each of them has one vote, and motions are adopted by simple majority, and the vote of the Chair resolves ties.

With regard to the category of the board members which make up the committee, Elena Zarraga (Committee Chair), Nagore Larrabeiti and María Laura Rodríguez are independent board members (50% of the total), Ainhoa Gallastegui is a working partner board member (17% of the total), Txomin García is an other external board member (17% of the total) and Luis Maria Ugarte is a shareholding board member (17% of the total). There are no executive board members on the committee.

The working partner board member is a board member who works in the role of working partner in the entity and does not perform senior management duties.

The other external board member is a board member who does not meet the requirements to be included in the other categories.

In relation to the work carried out in 2019, the Risk Committee in the performance of its duties has carried out the following:

- The monitoring and control of all risks through quarterly ALCO releases.
- It has analysed and validated the modifications of the various risk policies and manuals.
- It has analysed and validated the update of limitations and competences for the various types of risks.
- It has analysed and validated the 2018 CAR.
- It has analysed and validated the Recovery Plan.
- It has analysed and validated the risk appetite framework (RAF), the annual risk appetite statement (RAS) and performed its monitoring, and the stress testing methodology and scenario.
- It has analysed and validated the control of the fact that the prices of the formalised transactions exceed the cost of the transaction, in accordance with Annex IX.
- It has analysed and validated the proposed remuneration policy.
- It has analysed and validated the Strategic Plan with regard to the various risks.

D. LINKED OPERATIONS AND INTERGROUP OPERATIONS

D.1. Give details of the operations performed between the entity or entities in your group, and the shareholders, cooperative members, holders of property rights or any other of an equivalent nature in the entity:

D.2. Give details of the operations performed between the entity or entities in your group, and the entity's administrators or members of the administrative body or directors.

D.3. Give details of the intergroup operations.

D.4. Give details of the mechanisms established to detect, determine and resolve possible conflicts of interest between the entity or its group, and its board/administrative body members or directors.

In addition to the legally established possibility of challenging the motions agreed by the General Meeting and the Governing Board that harm the interests of Caja Laboral, to the benefit of one or more shareholders or third parties, the following specific regulations can be applied, regarding any possible conflicts of interest:

a) In compliance with article 8 of the Risks Policy Manual, and as a general criterion, all the risk operations proposed by the members of the Governing Board, General Manager, their family members up to second degree consanguinity and related companies will require centralised approval and must be submitted for the approval or ratification of the Governing Board, requesting authorisation from the Bank of Spain when exceeding the limits and terms established in standard 35 of the Bank of Spain Circular No. 2/2016 regarding supervision and solvency or otherwise being the object of immediate notification.

b) The need to meet the requirements, which are indicated below, for agreements of the Main Operations Committee and the Governing Board regarding risk operations specified in letter a) above. The requirements are as follows:

- The agreement must be adopted by secret ballot, with prior inclusion of the matter on the agenda with due clarity.
- The motion must be adopted by a majority of at least two-thirds of the total number of board members. If the beneficiary of the operation or service is a board member or a member of their family as indicated above, they will be considered as having a conflict of interest and will not be able to take part in the voting.
- Once the secret ballot has been held and the result announced, it will be appropriate to officially record any reservations or discrepancies with respect to the motion adopted.

These same requirements must be met when it comes to establishing, suspending, modifying, renewing or terminating obligations or rights of Caja Laboral with entities in which those persons or their aforementioned relatives are employers, directors, administrators, senior managers, advisers or basic members with a stake in the capital equal to or greater than 5%.

The appointment of board members is subject to a suitability manual which requires a signed declaration stating the absence of continued or structural conflicts with the interests of Caja Laboral as a necessary requirement to prove the suitability of the board member. Similarly, this situation is verified on an annual basis, without prejudice to the fact that the Board Member is responsible for immediately notifying Caja Laboral of any circumstances that could affect his or her suitability and is responsible for any damage that may be caused to the company as a result of the absence or delay of such notification.

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the entity's Risk Management and Control System:

The risk management system operates comprehensively, with responsibility for the admission, monitoring and recovery of traditional credit risk and the measurement and control of interest rate, liquidity, market and operational risks being centralised in the Risk Department.

All risks are managed centrally, with the Assets and Liabilities Committee meeting monthly and, in the case of operational risk, the Operational Risk Committee meeting quarterly. Except for the treasury and capital market risks, which are expressly delegated to the Treasury Department, and the credit risk for that related to attributions corresponding to branches or the Risk Division.

At least quarterly, the ORC reports on the control of all risks to the Risk Committee and the Governing Board.

E.2. Identify the bodies within the entity responsible for the development and execution of the Control System and Risk Management:

Governing Board: highest administrative body. It has the ultimate responsibility for monitoring and supervising the risks incurred by the entity. To carry out its functions, it relies on the Risk Committee, made up of members of the Board of Directors, and on its direct presence on the Main Risk Committee. It requires a rigorous risk control and systematic risk disclosure from the ORC.

General Management: responsible for the implementation of risk policies, through delegation by the governing body. It has organised the risk function on the premise of separation of roles between sales management and assumption of risks.

The Risks Division, specifically the ORC, reports quarterly on the monitoring and control of all risks to the Risks Committee and the Governing Board, specifying the level of compliance with the different limits and procedures established.

Assets and Liabilities Committee: the body responsible for managing interest rate, liquidity, market and credit risks, within the limits established by the Governing Board. The ORC reports monthly on risk monitoring, and this committee makes the relevant management decisions in relation to liquidity, interest rate and market risks.

Operational Risk Committee: operational risk control body. The ORC submits a quarterly report on the monitoring of operational risk.

Risk Division: centralises responsibility for the admission, monitoring and recovery of individual and company credit risk and for the construction and maintenance of credit risk internal models, as well as the measurement and control of liquidity, interest rate, market and operational risks.

Global Risk Control Department: reports hierarchically to the Risks division and functionally to the Risk Committee. It provides an overview of all the risks by measuring and controlling all the risks. As such, it is responsible for the preparation of credit risk monitoring and internal admissions models, as well as the measurement and control of liquidity, interest rate, market and operational risks. Reports to the COAP, the Risk Committee and the Governing Board.

Risk Management Department: answerable to the Risk Division. It is responsible for managing both domestic and commercial credit risk, both in terms of acceptance and the monitoring and recovery of irregular situations in its friendly and pre-litigation phase. It intervenes in the penalisation of defaults and has powers up to a certain level.

Legal Advice Department: answerable to the Risk Division. It provides legal documentary cover and support for risk operations as well as for the management of disputes within the business network.

Treasury and MC Dept: 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 Department: internal control organisation and monitoring of the various areas of regulatory compliance. It coordinates the different divisions and departments of the entity.

Branch office network: first phase in the individuals and companies credit risk acceptance process, up to the limit of their scope in which they have delegated functions due to scoring/rating levels, alerts and competences which make up the entity's risk policy. If the risk admission exceeds the powers of the retail network, the approval is raised to the Risk Area.

Internal Audit: independent and objective role of assurance and advice, providing a systematic and disciplined approach to assess and improve the efficiency of risk management, control and governance processes.

E.3. Indicate the main risks which could affect the attainment of the business goals:

The credit risk of the traditional business with individuals and companies (including concentration risk), structural interest rate risk, liquidity risk, treasury and capital market risks (sovereign risk, counterpart, country, concentration and market risks), operational risk, regulatory risk, reputational risk and business risk.

E.4. Identify whether the entity has risk tolerance levels:

The Risk Appetite Framework (RAF) is the main tool used by the Governing Board to establish, manage and control the types and levels of risk that it is prepared to assume in order to achieve its strategic objectives. The RAF allows the people who determine the Entity's strategy to consciously accept the risks that correspond to such a strategy.

In relation to Governance, the Global Risk Control Department is responsible for managing all issues related to the RAF, identifying needs, coordinating all the areas involved and presenting the different proposals to the ALCO/Risks Committee/Governing Board. The COAP and the Risk Committee have a leading role in the analysis and supervision of the proposals, prior to their submission to the Governing Board for approval.

In order to establish the risk appetite, the Entity takes into account its capacity to assume risks, mainly by taking into account:
- The financial capacity (capital and liquidity) of the Entity to assume risks
- The business environment: macroeconomic situation, regulatory risks…
-The risk culture in the Entity
-The inherent risk in each type of risk
-The degree of preparation and ability to take on each type of risk

The RAF incorporates a structure of metrics relating to the profitability, solvency, liquidity and different types of risk that the Entity manages. There is a first level, with the core indicators, and a second level with indicators that develop or complement those of the first level. The profitability, solvency and liquidity are considered to be priority dimensions, being established within the first level of CORE indicators related to these dimensions. All of the above metrics are assigned objectives and observation and tolerance thresholds, which allow us to specify the level of risk that the Entity is willing to assume, i.e. its level of risk aversion.

To achieve its strategic objectives, the Entity wishes to maintain a medium-low risk profile, which is specified in its Risk Appetite Statement (RAS). The RAS establishes observation and tolerance thresholds consistent with a prudent risk policy aimed at keeping the Entity within comfortable levels of capitalisation and liquidity, even in stress scenarios. The Entity monitors these indicators, having established an action procedure if the thresholds are exceeded.

E.5. Indicate which risks have materialised during the financial year:

Regarding the interest rate risk, the limit set by the governing body and controlled by the ALCO has never been exceeded.

For market risks, the excesses are supervened, i.e. motivated by the reduction of limits and not by increases of the position. In these cases, the control systems have worked properly, with the ALCO having been informed of the mentioned excesses and having decided whether or not to maintain the position.

As regards liquidity risk, there has not been any stress situation. The systematic monitoring of the entity's liquidity and the analysis of its deviations from the forecasts and the finance plans updated monthly allow sufficient time to anticipate possible unfavourable mid-term impacts, generating the necessary corrective actions in enough time.

Relating to the credit risk and regarding operations with individuals and company segments, when the risk with a borrower exceeds the powers of a body, the decision is raised to the body with the next higher level of powers. In operations with financial institutions and large corporations, the activity has been carried out within the Entity's risk management framework, which sets limits significantly lower than the levels set by the regulations for large risks.

As for operational risk, the operational losses that inevitably occur as a result of the activity of the entity are reduced as a result of the controls established in the qualitative section. The entity identifies non-recurring losses, establishing action plans to prevent their reoccurrence and, if necessary, setting up provisions in anticipation of future needs.

As regards reputational risk, no new situations have arisen that have generated significant negative publicity.

E.6. Explain the response and supervision plans for the entity's main risks, as well as the procedures followed by the company to ensure that the board of directors responds to new and emerging challenges:

On a quarterly basis, the ORC reports to the Risk Committee and the Governing Board on the changes in the various risks, and in particular on the RAS indicators. If any of these indicators enters an amber or red zone, the procedure set out in the Risk Appetite Framework is activated, which includes informing the Risk Committee and the Governing Board as soon as possible, which will depend on the criticality and severity of the threshold being exceeded.

Also, internal supervision of the risks of the entity is determined by the activities of Internal Audit, which are aimed at assessing and improving the efficiency of the risk control and management processes.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS RELATED TO THE PROCESS OF FINANCIAL INFORMATION (FIICS)

Describe the mechanisms which form the risk control and management systems related to the process of issuing the financial information (FIICS) of the entity.

F.1. Entity control environment.

Give details, highlighting the main characteristics of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of a suitable and effective FIICS; (ii) its implementation; and (iii) its supervision.

Caja Laboral has implemented internal control mechanisms in order to guarantee that the financial information published in the markets, concerning both the entity and the group, is complete, reliable and appropriate. This process was reinforced with the completion during 2014 of the Financial Information Internal Control System (hereinafter, FIICS).

Section 3.6. -reliability of the information from the Code of Ethics and Professional Conduct of Caja Laboral, defines both the governing bodies and the roles assigned to each of them, in relation to FIICS:

-The Caja Laboral Governing Board is the body ultimately responsible for establishing, maintaining and guaranteeing a suitable and efficient FIICS, which controls and ensures that the financial information published in the markets, concerning both the Entity itself and the Group, is complete, reliable and appropriate.

-The Management Board and the Internal Audit Department are responsible for designing and implementing effective control procedures to permanently guarantee the reliability of the financial information supplied to the market. To this end, it will supply the entity with sufficient human and material resources, providing the people involved in the preparation of the financial information with the necessary training for them to perform their tasks.

The Audit Committee is responsible for overseeing the proper functioning of the FIICS through monitoring the preparation and presentation process of the regulated financial information and, especially, the legal requirements and the correct application of the generally accepted accounting principles. For this task, it is supported by the Internal Audit Department which assists the audit committee in reporting on the supervision of the correct design and implementation of the risk control and management systems, including the FIICS, and supervises their correct and efficient working order.

Lastly, the Management Control and Planning Department, under the direction of the Finance Division, cooperates in the design and implementation of risk control and management systems, especially regarding the process of preparation, presentation and integrity of financial information which is disseminated in the markets.

F.1.2 If they exist, especially regarding the process of preparing financial information, the following elements:

· Departments and/or mechanisms responsible: (i) for the design and review of the organisational structure; (ii) for clearly defining the lines of responsibility and authority, with appropriate distribution of tasks and roles; and (iii) for there being sufficient procedures for their correct dissemination within the company:

Design and review of the organisational structure is the responsibility of the Organisation Department, which analyses and reviews the need for resources of each Division so that it can be met. This review, which is carried out at the division and department level of central services when the need arises to adapt their organisational structure, not only decides the staffing required but also validates the organisational structure of each unit.

Thus, within the scope of the commercial branch network, using a computer application designed for the purpose, the work load of each branch is measured each month. This information is transferred to the general management, the HR management and the commercial network management in order to apply the adjustments that need to be made to resources.

The Organisation Department is also responsible for defining the lines of responsibility and authority in each area of activity, and for the duties and tasks carried out therein, publishing them in the directory of each division.

In 2015, the Organisation Manual was approved, a single repository for the tasks performed in the organisation, and in 2016 it was published on the corporate Intranet to which all staff have access, together with the entity's general organisational chart.

- Code of conduct, approving body, level of dissemination and instruction, principles and values included (indicating whether there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing non-compliance and for proposing corrective actions and disciplinary measures:

The entity has a code of ethics and professional conduct, the last update of which was approved by its Governing Board in June 2015.

The Code of Ethics and Professional Conduct establishes, in section 3.6, aspects to be taken into account regarding reliability of financial information, of which the following are noteworthy:

-Caja Laboral is responsible for providing reliable, accurate, complete and timely information on its financial statements and on events which may have a significant impact on these.

-In addition to the procedures established in the Group to ensure that the financial information is prepared in compliance with the valuation regulations and principles in force, all the work associates and employees have the obligation to diligently comply with their tasks regarding the recording and treatment of the information, which constitutes the basis of the Group's public financial information preparation process.

-The application of this responsibility is especially important with regard to the data and reports which are required for preparing the Group's financial statements, as its adequate recording and interpretation are essential in order to ensure a correct application of the relevant valuation criteria for each accounting balance, transaction or contingency.

In June 2015 a Manual on prevention and the response to crime and the corresponding policy of criminal compliance was approved, thereby ratifying the firm stance of Caja Laboral to maintain conduct that respects both the regulations and ethical standards and establishing its framework of principles of compliance in criminal matters. By virtue of this manual, the Ethics Committee assumes the role of ensuring compliance with the principles of the code of ethics and professional conduct, in general, and the monitoring of potentially illicit conducts from a criminal perspective.

Furthermore, Caja Laboral also has an internal code of conduct in the area of the securities market, which was last updated with the approval of the Governing Board in May 2018, which applies to the members of the Governing Board of Caja Laboral, members of the Boards of Directors of the group's companies and to all those people, whether or not they are managers, whose work is directly or mainly related to the activities and services of the entity in the securities market area or who frequently or usually have access to relevant information about Caja Laboral.

- Complaints procedure, which allows the Audit Committee to be notified of any financial or accounting irregularities, as well as any breaches of the code of conduct and any irregular activities in the organisation, indicating where applicable if it is of a confidential nature.

As a result of the approval of the Manual on Prevention and Response to Crimes, the complaints channel is managed by the Ethics Committee, which includes the Director of Internal Audit.

This complaints channel is available to all partners, employees and administrators of the different companies which are part of the group. Its operating system is part of the entity's Manual on Prevention and Response to Crimes. Through this channel, the Ethics Committee is informed of any potential non-compliance with the code of ethics and professional conduct, of operations and behaviour contrary to the legislation in force and the internal regulations and any potentially significant irregularities, especially financial and accounting irregularities.

The entity's Manual on Prevention and Response to Crimes describes the scope, content and use of the channel, ensuring the confidentiality of the complaint.

In addition, the Audit Committee is regularly informed of the work carried out by Internal Audit, including that related to any irregular actions within the organisation.

- Regular training and refresher programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the FIICS, to cover at least accounting standards, audit, internal control and risk management:

The entity has a training plan which ensures that the personnel directly involved in the drafting and preparation of the financial information, and in its review, have the training and professional skills necessary to carry out their duties. In this respect, these members of staff are permanently informed about the regulatory requirements in force.

The training programmes and activities are managed by the training section of the entity, which also keeps an up-to-date record of all the courses carried out and their characteristics. The departments involved in the process of preparing and reviewing financial information have received training in accounting standards, auditing and financial risk management and control, and are updated on an ongoing basis in line with relevant regulatory changes.

The training sessions are in person and on-line through internal and external trainers.

F.2. **Financial information risk assessment.**

Give details of at least:

F.2.1 The main characteristics of the risk identification process, including those of error or fraud, in terms of:

· Whether the process exists and is documented:

The FIICS has been developed by the entity management in accordance with the international standards established by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter, COSO); which establishes five components on which to base the efficiency of the internal control systems:

- To establish a suitable control environment for monitoring all these activities.
- To evaluate all the risks which an entity could incur during the preparation of its financial information.
- To design the controls required to mitigate the most critical risks.
- To establish the appropriate information circuits in order to detect and communicate the weaknesses or inefficiencies of the system.
- To monitor these controls to ensure 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 materialise. In the process of analysing processes and areas, both quantitative (balance and granularity) and qualitative factors (degree of automation of the processes, operation standardisation, level of accounting complexity, changes with regard to the previous financial year, identified weaknesses in control, etc.) are considered.

The financial information internal control risks evaluation and identification is dynamic, it continuously evolves over time, reflecting the reality of the business of the group, the risks which affect it and the controls which mitigate it, at each moment in time. The evaluation of the effectiveness of the FCIIS controls is performed based on the indicated risks identification process, taking into account the changes in the organisation and business of the group and considering the level of materiality, probability of occurrence or possible financial impact of the risk covered by the above-mentioned controls.

· Whether the process covers all objectives of the financial information (existence and occurrence; integrity; valuation; presentation; breakdown and comparability; and rights and obligations), and whether it is updated and with what frequency.

The process has been designed taking into account all objectives of the financial information considered in the Internal Control Document on financial information in the listed entities issued by the CNMV (existence and occurrence, integrity, valuation, presentation, breakdown and comparability, and rights and obligations).

As indicated above, the criteria to be followed for all types of identifiable risks and which are included in the design of the FIICS are both quantitative and qualitative, as well as considering the identification of error and fraud risks related to published financial information.

The foreseen frequency of the identification process of the relevant material areas and processes is at least annually, using the most recent financial information. Furthermore, this evaluation will also be performed whenever circumstances arise which have not been previously identified and which show possible errors in the financial information or when substantial changes are made in the operations which may lead to the identification of new risks, including situations which entail changes in the structure of the Group, such as: modifications to the scope of consolidation or in the business lines, or other relevant events, among other aspects.

- The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental or special purpose entities:

The entity has a procedure for identifying and updating the scope of consolidation, which is the responsibility of the Inspection Department. Every quarter, this department reviews the inventory of investee companies in order to detect any variation that may be included in the systems to obtain the consolidated financial information.

- Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax related, reputational, environmental, etc.), insofar as they affect the financial statements:

As mentioned above, and due to the control standards and methodology implemented, the effects of other types of risks (market, credit, operational, technological, financial, legal, reputational, or of any other nature) are taken into account insofar as they may affect the financial statements.

Regarding operational risk, Caja Laboral has a model for managing operational risk, which includes a risk identification process (map showing the risks of internal and external fraud, and technological, operative, business practices and loss risks) and the controls that mitigate them, as well as a quantitative assessment of them. The model is directly monitored by the Operational Risk Committee and contained in a computer application and in various policy, procedure and user manuals. Responsibility for monitoring assessment of the operational risks and the controls allocated to them falls on the internal audit department.

- Which governing body of the entity supervises the process:

The execution of the risk identification and controls procedure is the responsibility of the Planning and Management Control Department, which reports to the management of the Financial Division, while its supervision is entrusted to the Audit Committee, through the Internal Audit Department.

F.3. Control activities.

State, highlighting the main characteristics, whether you have at least:

F.3.1 Procedures for the review and authorisation of financial information and the description of the FIICS, to be published in the securities markets, listing those responsible for them and the documentation describing the flow of activities and controls (including those related to fraud risk) of the different types of transactions that could materially affect the financial statements, including the book closing procedure and the specific review of the relevant opinions, estimates, appraisals and forecasts.

The procedures for the review and authorisation of financial information of the group which is published in the markets begins with the review by the Finance Division management. The individual and consolidated annual accounts are reviewed by the Internal Audit Department as the preceding step to their formulation by the Governing Board. The Audit Committee then reads the information and discusses it with the managers from the Finance Division, Internal Audit and with the external auditors, before it is sent to the Governing Board.

Regarding activities and controls directly related to transactions that could materially affect the financial statements, the entity has procedure manuals specific to the divisions and departments and to the financial information control divisions. These manuals are drafted by the divisions and approved by the Governing Board.

The procedures include the organisation chart and the functions involved in the process, the systems involved and the description of the process. Additionally, the risk and control matrices include, among others, the following fields:

- Description of the risk.
- Control activities.
- Control classification: key/standard.
- Control category: preventive/detective.
- Method: manual/mixed/automatic.
- System which supports the control.
- Control manager and executor.

- Control frequency.
- Control evidence.

The significant processes (distinguishing between transversal and business processes) associated with the entity's Finance Divisions for which the aforementioned documentation is available are listed below:

Transversal processes:

- Accounting closure.
- Consolidation.
- Legal and tax management.
- General computer controls.
- Judgements and

  estimations.

- Business processes:

- Credit investment
  - concession.
  - monitoring and recovery.
- Financial instruments.
- Real estate assets received as payment of debt.

The descriptive documentation described above includes:

- A description of the divisions and departments involved in each of the identified processes.
- The description focused on the preparation of financial information of the procedures, controls and verifications of the activities related to the process from the beginning.
- The identification of the computer systems involved in each process.
- The identification of relevant risks with a material impact on the entity's financial statements.
- The identification of the controls and their description, as well as their association with the previously identified risks.

The Caja Laboral accounting closure procedure is automated and the accounting takes place automatically through the entity's various applications. After this initial process has taken place, the Inspection Department reviews the information, comparing it to both the data from the previous month and the forecast figures, in order to validate the closure of the balance sheet and profit and loss account for the month.

Accounting closure of the subsidiaries is carried out by their corresponding entity, except in the case of the real estate promotion companies, which are sub-contracted to a third party. Once the information has been received from the subsidiaries, a review is performed by the Caja Laboral Inspection Department in order to carry out the consolidation process.

As mentioned in the annual accounts, estimations have been used, as appropriate, for the valuation of certain assets, liabilities, income, expenditure and commitments performed by the Senior Management of the Parent Entity and of the Investee Entities and ratified by their Administrators. In these financial accounts, the entity reports on the most relevant areas in which there are judgement or estimation parameters, as well as the key assumptions included by the group with respect to them. In this respect, the main estimations made make reference to:

- Impairment losses on certain financial assets.
- The useful life applied to the elements of the tangible and intangible assets.
- Valuation of goodwill for consolidation.
- The fair value of certain financial assets not listed on regulated markets.
- The expected cost and evolution of contingent liabilities and provisions.
- Hypotheses used for calculating insurance liabilities.
- The actuarial hypotheses used for calculating the post-employment remuneration liabilities and commitments.
- The recoverability evaluation of activated tax credits.

In addition, Caja Laboral has, within the FIICS, a general policy for giving judgements and estimations, covering all the aspects to be considered and the responsibilities in its preparations and review.

F.3.2 Policies and procedures for internal control over the information systems (amongst others, secure access, monitoring of changes, their implementation, operational continuity and separation of roles) that support the relevant company processes in relation to the preparation and publication of financial information.

Caja Laboral uses information systems to keep a correct record and control of its operations and is therefore highly dependent on their correct functioning.

The Entity has approved a Security Regulatory Unit (SRU), a collection of documents containing the mandatory corporate security requirements. It is made up of policies that provide high-level details on the objective in each security area and corporate standards that define the specific controls to be implemented for each of the security areas. The Security Regulatory Unit is applicable to the entire entity and the functions and responsibilities have been defined.

In addition, a Security Committee has been created which is the body directly responsible for the security practices defined in the Entity’s SRU.

There are up-to-date policies, standards and procedures for information systems security. These establish the technical and organisational guidelines required for alteration, loss, unavailability and unauthorised processing of or access to the Organisation's resources and data.

The Entity has defined and formalised a procedure which regulates the steps to be followed for the recording and management of the changes implemented. In addition, the Entity has a procedure and method for testing new developments and maintaining existing ones. New developments or improvements to the Entity's information systems must meet information security requirements in order to guarantee the availability, confidentiality and integrity of the information contained therein.

Caja Laboral has a disaster response and recovery plan that is made known to employees, reviewed and updated on a regular basis.

In summary, Caja Laboral has a General Computer Control Procedure that establishes the basis for internal control over the information systems that support the Entity's processes in connection with the preparation and publication of financial information.

F.3.3 Internal control policies and procedures intended for supervising the management of activities sub-contracted to third parties, as well as aspects of assessment, calculation or valuation assigned to independent experts, which could materially affect the financial statements.

The entity periodically reviews which activities performed by third parties are relevant to the financial reporting process or could indirectly affect its reliability. To date, the entity has not outsourced processes that have a significant impact on financial reporting. Nevertheless, the entity uses independent expert valuation reports for operational valuations that could potentially materially affect the financial statements.

In 2019, the activities entrusted to third parties relating to valuations and calculations by independent experts were those concerning updates of appraisals of foreclosed properties and properties used as collateral for Caja Laboral's loan portfolio operations.

The entity has controls in place to mitigate the risks associated with the activity carried out by valuation companies, which are implemented by the departments responsible for the operation, aimed at guaranteeing the independence of the valuers and the quality of the valuations. It is also supported by the Internal Audit Department for checking the effectiveness of the established procedures.

F.4. **Information and communication.**

State, highlighting the main characteristics, whether you have at least:

F.4.1 A specific role responsible for defining and reviewing accounting policies (accounting policies area or department) and resolving any queries or conflicts derived from their interpretation, maintaining smooth communication with those responsible for the organisation's operations, as well as an accounting policy manual that is updated and sent to all units through which the company operates.

The Inspection Department is responsible for identifying, defining and communicating accounting policies to the Entity, including to the subsidiaries, and for answering any accounting queries that may be presented by the subsidiary companies or business units of the Entity.

The Entity has an Accounting Manual, which determines and explains the regulations for preparing the financial information and how these regulations should be applied to the operations specific to the Entity, such as, for example, consolidation packages for the subsidiary companies. These documents not only refer explicitly to the standards that apply to each type of transaction, but they also develop and explain their interpretation so that they can be adapted precisely to each type of transaction.

These documents are regularly updated and therefore any significant amendments or updates are notified to the companies to which they apply.

The consolidation packages are prepared by each affiliated company of the Financial Group and it is the Inspection Department that supervises the compliance of these investee companies with the accounting policies established by the Group. This Department analyses and reviews the information from the subsidiaries and makes any corrections that may be necessary.

If there are no regulatory changes concerning the financial information that have an impact on the financial statements, the Inspection Department is responsible for revising, analysing and updating the accounting standards. This department is also responsible for communicating changes or updates to the entity's business units and subsidiaries.

The financial accounting information framework applied by the entity and its group includes: (i) the international financial reporting standards adopted by the European Union, and (ii) Bank of Spain Circular 4/2017 dated 27 November.

F.4.2 Mechanisms for capturing and preparing the financial information with standard formats for application and use by all units of the institution or group, which support the main financial statements and the notes, as well as the information detailed about the FIICS.

There are control measures in place to ensure that the back-up data for the financial information is collected in full, and in an accurate and timely manner, being also notified in a timely manner. The process of consolidation and preparation of the financial information is centralised and carried out by the Entity.

This process uses as input the consolidation packages from the financial statements reported by the subsidiaries, following the guidelines and formats in place, as well as the rest of the financial information required, both in the account standardisation process and to cover the information requirements in place. The Inspection Department is responsible for reviewing the financial information reported by the subsidiary companies.

The Inspection Department performs a series of controls to ensure the reliability and correct processing of the financial information received from the subsidiaries and the business units, among which are checks on the correct implementation of the various consolidation entries, variations in the results obtained against the budget and the checks specific to Banco de España, where the various balance sheet and profit and loss account entries are interlinked.

F.5. **Supervising the operation of the system.**

Give details, highlighting the main characteristics, of at least:

F.5.1. Activities for supervising the FIICS carried out by the Audit Committee, and whether the institution has an internal audit system whose responsibilities include supporting the committee in its task of supervising the internal control system, including the FIICS. Furthermore, information shall be provided about the scope of the evaluation of the FIICS made during the financial year and the procedure used by the person responsible for carrying out the evaluation to report their findings, whether the institution has an action plan containing details of any corrective measures and whether their impact on the financial information has been considered.

Among the competences assigned to the audit committee, as well as that of supervising the internal audit services, are those regarding the supervision of the process of development and presentation of financial information and the internal control systems of the company and delegating the development of these activities to the internal audit department.

To exercise its functions, the internal audit department is divided into four sections: Financial Units Audit, Customer Management Units Audit, Remote Audit and Information Technology Audit, and their main task is to establish the internal control measures necessary to guarantee the reliability of the financial information, operational efficiency (of both procedures and management), compliance with the internal and external regulations that apply, and protection of the Entity's assets.

Furthermore, the entity's Code of Ethics and Professional Conduct establishes that the Governing Body and the Internal Audit Department are responsible for designing and implementing effective control procedures to permanently guarantee the reliability of the financial information supplied to the market.

To achieve its objective, the Internal Audit Area carries out scheduled reviews of the systems implemented for controlling risks, internal operating procedures and compliance with the internal and external regulations that apply at any time.

The Internal Audit Department includes in its annual action plan revisions on the processes considered to be relevant, with the aim of reviewing all of them over a three-year period, with the exception of certain areas or processes considered to be of special relevance, among which are the accounting closure procedure, the review of judgements and estimates and general controls over information systems, for which the evaluation is carried out annually.

The scope of the monitoring and evaluation of FIICS carried out during the 2019 financial year included the following reviews:

- Review of the cross-cutting processes of accounting closure and consolidation. In addition, the process of preparing and presenting the financial information published by Caja Laboral was supervised.
- Review of the judgements and estimates used in the calculation of the relevant contingent liabilities and provisions.
- Review of the transversal process of general computer controls.
- Review of the Credit Investment business process.

In addition, compliance with the recommendations for improvement issued in the review processes carried out in previous years has been monitored.

The result of the review and evaluation of FIICS in 2019 has been regularly submitted to the Audit Committee by the Director of the Internal Audit Department.

F.5.2 Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in the Technical Auditing Standards), the internal audit team and other experts can report to senior management and to the Audit Committee or the entity's directors any significant control weaknesses detected during the annual account review processes or any others assigned to them. Also, whether there is an action plan to correct or reduce any weaknesses observed.

the Audit Committee meets the External Auditor at least twice during the financial year:

- The first meeting is held at the end of the preliminary work for the interim visit that forms part of the annual audit, where the external auditor presents the preliminary findings obtained from the work carried out to date.
- The second meeting takes place prior to the formulation of the annual accounts. At this meeting the external auditor presents the final conclusions of the audit.

Moreover, the account auditor has direct access to senior management and to the Internal Audit Division, holding regular meetings with them both to obtain the information necessary for this work and also to discuss any weaknesses detected.

The Memorandum on internal control and administrative accounting procedures issued by the external auditor, which makes suggestions for improvements to the internal control system and associated risks, is presented to the Board of Directors and the Audit Committee, and subsequently submitted to the Entity's Governing Board. This document contains comments from the general management for each recommendation and, where applicable, the action plans or measures adopted to resolve any weaknesses.

Lastly, depending on the importance of the recommendations issued by the External Auditor, the Annual Internal Audit Plan usually includes work for monitoring the measures that have been adopted.

With regard to the result of the work carried out by internal audit, the reports issued are submitted by the director of the department to the Audit Committee and, depending on their importance, to the Board of Directors, after verification with the audited area, and the degree of implementation of the recommendations proposed in the reports is monitored.

Furthermore, at least quarterly, the Audit Committee meets at the request of the management of the Internal Audit Department, in order to receive information on the main work carried out by it, thereby fulfilling one of the responsibilities entrusted to the committee.

F.6. **Other relevant information.**

-

F.7. External auditor's report.

Give details of:

F.7.1 Whether the FIICS information sent to the markets has been subject to review by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for this.

The entity has not considered it necessary to submit the FIICS information sent to the markets for review by the external auditor.

G. OTHER INFORMATION OF INTEREST

If there is any relevant aspect of corporate governance in the entity or in the group companies that has not been included in the other sections of this Report, but that it is necessary to include in order to provide more complete and reasoned information on the structure and practices of governance in the entity or its group, describe it briefly.

Any other information, clarification or detail relating to the previous sections of the report can also be included in this section as long as it is relevant and does not repeat what has already been stated.

Specifically, indicate whether the entity is subject to any legislation other than Spanish law on matters of corporate governance and, if so, include any information that you are obliged to provide that is not included in this report.

The entity may also indicate whether it has voluntarily adhered to other codes of ethics or good practices, either international, sectoral or of another scope. When applicable, the entity will identify the code in question and the date of adhesion.

1.- This information complements section A. Property structure:

The majority of the cooperatives and their trading companies which are partners of Caja Laboral, in turn form part of Mondragón Corporación Cooperativa. This corporation, which Caja Laboral is part of, is a group of freely associated cooperatives which share a set of cooperative values and which seek to achieve competitive advantages from their joint cooperative action.

Caja Laboral contributes, in the form of a subsidy, to MONDRAGÓN Inversiones S. Coop. and to Fundación MONDRAGÓN (entities belonging to or formed by the cooperatives associated with Corporación MONDRAGÓN), an annual amount equivalent to 15% of the surplus available from the previous year (after taxes and interest on capital) that is deducted from the Inter-cooperative Social Fund (ISF).

2.- This information complements section C.1.6. on the remuneration of directors:

The working partner board members do not receive any remuneration for belonging to the Governing Board, notwithstanding that received for the work they perform in the entity as workers. The rest of the members of the Governing Board do not receive remuneration for belonging to the Board either.

Caja Laboral compensates the dedication of the Chairperson and, through the established procedures, pays the corresponding remuneration by applying the remuneration criteria established by Caja Laboral within the framework of the regulations established for credit institutions.

This annual corporate governance report has been approved by the company's Board of Directors at its meeting held on:

28/02/2020

Indicate the directors or members of the administrative body who voted against or abstained in relation to the approval of this report.

This report has been approved unanimously

CAJA LABORAL POPULAR COOP. DE CRÉDITO

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR 2019

The Members of the Parent Entity's Governing Board declare that to the best of their knowledge the attached consolidated annual accounts have been prepared in accordance with applicable accounting principles and provide a true and accurate view of the consolidated equity, the consolidated financial situation and the consolidated income of the Parent Entity and its investee companies, and that the attached management report includes an accurate analysis of the development and profit and loss obtained by the Group during the year ended 31 December 2019.

As a result, the members of the Governing Board of Caja Laboral Popular Coop. de Crédito (Parent Entity) hereby prepare the Consolidated Directors' Report and consolidated annual accounts on 28 February 2020, including the notes to the consolidated annual accounts, Consolidated balance sheet, Consolidated profit and loss account, Consolidated statement of recognised income and expenditure, Consolidated statement of total changes in equity and Consolidated cash flow statement for the year ended 31 December 2019. All members have signed this page in witness of their agreement and the Secretary to the Governing Board has signed each page of the documents mentioned above for the purposes of their identification.

Mr Txomin García Hernández (Chairman)	Mr Luis María Ugarte Azpiri (Vice-Chairman)	Mr. Ricardo Pérez Aguado (Secretary)
Ms. Elena Zárraga Bilbao (Member)	Ms Ainhoa Gallastegui Martínez (Member)	Mr. Xabier Sagarna Arrizabalaga (Member)
Mr. Francisco José Dean Pueyo (*) (Member)	Ms. Nagore Larrabeiti Libano (Member)	Ms María Esther Korta Errazkin (Member)
Mr. Pablo Luis Bringas Vélez (Member)	Ms Itziar Elgarresta Ibarrondo (Member)	Ms. María Laura Rodríguez González (Member)

(*) *Mr. Francisco José Dean Pueyo has not signed the annual accounts for 2019, due to the fact that on the date of the Governing Board he was on medically prescribed temporary disability leave.*

22 June 2020

Caja Laboral Popular Coop. de Crédito
Paseo José María Arizmendiarrieta s/n
20500 Mondragón
Gipuzkoa

For the attention of the Governing Board of Caja Laboral Popular Coop. de Crédito

Dear Sirs,

At its meeting on 28 February 2020, the Governing Board of Caja Laboral Popular Coop. de Credito agreed the following proposal for the distribution of the 2019 surplus:

	Thousands of euros
Distribution:	
Gross interest, distributed as allocation of the gross surplus for the year for contributions to Share Capital	34,316
Mandatory Reserve Fund	51,662
Education and Promotion Fund (*)	
Cooperative returns	25,831
Inter-cooperative Welfare Fund	15,498
Earnings for the year	127,307

(*) The amount allocated to the Education and Promotion Fund represents the mandatory minimum, amounting to 10,332 thousand euros.

This proposal is also included in note 4 of the report on the individual and consolidated annual accounts for the year ended 31 December 2019, which were prepared by the Governing Board at the above-mentioned meeting and in respect of which we issued our audit reports on 9 March 2020 where we expressed a favourable opinion in both cases.

As set out in the documentation included in the attached Annex, the Governing Board, at its meeting on 29 May 2020, decided to replace the proposal for the distribution of the surplus profits originally agreed with the following proposal:

	Thousands of euros
Distribution:	
Gross interest, distributed as allocation of the gross surplus for the year for contributions to Share Capital	34,316
Education and Promotion Fund (*)	-
Inter-cooperative Welfare Fund	-
Mandatory Reserve Fund	51,662
Cooperative returns	25,831
Distributable Voluntary Reserve Fund	15,498
Earnings for the year	127,307

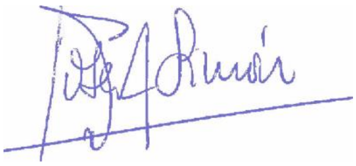
(*) The amount allocated to the Education and Promotion Fund stands at 10,332 thousand euros.

In this respect, we confirm that this decision would not have modified our audit opinion, as expressed in the audit reports we issued on 9 March 2020 regarding the annual accounts of Caja Laboral Popular Coop. de Crédito and the consolidated annual accounts of Caja Laboral Popular Coop. de Crédito and subsidiaries for the year ended 31 December 2019, if the new proposal had been known at the time it was signed.

This statement relates exclusively to the decision to amend the proposal to be submitted to the General Assembly for approval concerning the distribution of the surplus profits. Since 9 March 2020, the date our audit reports were issued, we have not conducted any audit procedures relating to other matters or to any subsequent events that may have occurred since that date.

This letter has been issued at the request of the Governing Board of Caja Laboral Popular Coop. de Crédito, for the purpose of informing the General Assembly of Caja Laboral Popular Coop. de Crédito, in accordance with the requirements of article 40.6.bis of Royal Decree Law 8/2020, and may not be used for any other purpose.

PricewaterhouseCoopers Auditores, S.L.



Jose Antonio Simon Maestro

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Governing Board

JUSTIFICATION OF THE BOARD OF DIRECTORS FOR AMENDING THE PROPOSAL FOR THE APPLICATION OF PROFITS AND DISTRIBUTION OF RESERVES PRESENTED IN THE NOTES TO THE 2019 ANNUAL ACCOUNTS AND TO BE SUBMITTED FOR APPROVAL BY THE NEXT GENERAL ASSEMBLY

1. Purpose of the document

This document has been prepared by the Board of Caja Laboral Popular Coop. de Crédito ("Laborer Kutxa") in order to justify the amendment of the proposal for the allocation of profits and distribution of reserves set out in the notes to the individual and consolidated annual accounts for the year ended 31 December 2019, which were prepared by the Company's Board of Directors on 28 February 2020. The new proposal for the application of profits and distribution of reserves will be submitted to the General Assembly for its approval.

To this end, Article 40.6 bis of *Royal Decree-Law 8/2020, of 17 March, on urgent extraordinary measures To address the economic and social impact of COVID-19* ("Royal Decree-Law 8/2020") states that commercial companies who, having prepared their annual accounts, call a General Assembly after the entry into force of this provision, may replace the proposal for the application of profits, contained in the report on the annual accounts, with another alternative proposal, provided that the Board of Directors justifies this replacement on the basis of the situation caused by COVID-19. In addition, the new proposal for the application of profits must be accompanied by a letter from the auditor stating that they would not have changed their audit opinion if they had known of the new proposal at the time of its signature.

In accordance with the provisions of Article 41.3 of Royal Decree-Law 8/2020, the new proposal for the application of profits, this report and the auditor's statement must be published as supplementary information to the annual accounts on the corporate website of Laboral Kutxa (www.laboralkutxa.com).

By virtue of the above, and given the exceptional situation resulting from the health crisis of COVID 19, the Governing Board hereby presents this report justifying the amendment of the proposal for the application of profits and the distribution of reserves.

2. Justification of the amendment

The change to the proposed allocation of profit and distribution of reserves is in line with the background of uncertainty generated by the COVID-19 health crisis and its economic and social consequences based on forecasts published by international and regulatory bodies.

The Governing Board of Laboral Kutxa considers it appropriate, from a financial prudence perspective and for the purposes of complying with the Bank of Spain's recommendation not to distribute dividends, to amend the proposal for the application of profits for the year ended 31 December 2019 included in the report on the annual accounts drawn up by the Governing Board on 28 February 2020.

For this reason, the Governing Board has deemed it necessary to replace the contribution to the Inter-cooperative Social Fund with a contribution of the same amount to a Distributable Voluntary Reserve Fund, which will be submitted to the General Assembly for approval.

The change to the proposed application of profits does not affect the situation of Laboral Kutxa's assets shown in the individual and consolidated annual accounts as at 31 December 2019, nor the assessment regarding the continuity of its management, and the Governing Board therefore considers that it is not necessary to reformulate the aforementioned annual accounts.

3. Proposed amendment

The Governing Board of Laboral Kutxa, at its meeting held today, decided to replace the proposal for the application of profits contained in the report to the individual and consolidated annual accounts, which will be submitted for approval at the next General Assembly, with the following:

	Thousands of euros
Distribution:	
Gross interest, distributed as allocation of the gross surplus for the year for contributions to Share Capital	34,316
Education and Promotion Fund (*)	-
Inter-cooperative Welfare Fund	-
Mandatory Reserve Fund	51,662
Cooperative returns	25,831
Distributable Voluntary Reserve Fund	15,498
Earnings for the year	127,307

(*) The amount allocated to the Education and Promotion Fund stands at 10,332 thousand euros.

4. Statement from the Auditor for the year 2019

Lastly, in accordance with article 40.6 bis of Royal Decree-Law 8/2020, the decision adopted by the Governing Board, as well as this report, has been sent to the auditor so that they can issue the appropriate statement confirming that the decision taken to amend the proposal for the application of profits would not have changed their opinion expressed in the audit report dated 9 March 2020 if this decision had been known at the time the audit report was signed.

* * * * *

This report was prepared and approved by the Governing Board at its meeting of 29 May 2020.

In Mondragon, 29 May 2020.

Signed: Ricardo Pérez Aguado
Governing Board Secretary