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

Audit report
Consolidated annual accounts
and Management report for the fiscal year 2020

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 2020, 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 2020, 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. Therefore, the Group uses models that, based on its experience and the information it has on the banking sector where it operates, as well as the forecasts on future conditions, allow the estimation of loaimpairment collective provisions for credit risk and the provisions for risks estimated individually. Additionally, the economic and health crisis caused by Covid-19 has had a relevant impact on the attached consolidated financial statements due to the impact on the estimation of impairment losses on the loan portfolio of the following aspects: • The approval by the Spanish Government of urgent measures to face the economic and social impact of Covid-19, including different types of moratoriums in the payment of loans for groups in situations of vulnerability due to Covid-19.	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
• Extension of public moratorium measures to other groups affected by Covid-19 through private agreements. • Approval by public administrations of guarantee lines over the financing that credit institutions grant to companies and self-employed workers in order to meet their liquidity needs caused mainly by the economic crisis of Covid-19. • Publication of statements by the main regulatory and supervisory bodies on the interpretation of the regulations that control aspects such as the evaluation and staging of credit risk and the difference between temporary liquidity problems as a result of the Covid-19 crisis and structural problems whose origin cannot be exclusively linked to the Covid-19 crisis. In this context, the Group has proceeded to update its estimate of the expected loss, analyzing, among other aspects, its effect on the thresholds established in relation to the significant increase in credit risk and the implications regarding an increase in credit risk. Provisions both by borrower and by the different sectors in which the Group's borrowers carry out their activity. See notes 3, 13, 15, 25 and 62 of the report on the attached consolidated financial statements	Regarding the implications of Covid-19 and its impact on expected loss models and specific calculation methodologies for estimating individualized provisions, the main procedures carried out are described below: • Analysis of the policies and criteria used by the Group to grant and monitor legislative and private moratorias and financing operations with public endorsement. • Analysis of a sample of files of legislative moratorium operations, private moratoriums and operations granted with the endorsement of ICO and Elkargi, in order to evaluate their adequate concession in accordance with current regulations and agreements. • Understanding of the application of accounting policies and methodological framework regarding the evaluation of the existence or not of a significant increase in credit risk, taking into consideration the pronouncements of the different regulators and supervisors since March 2020, and the legislative measures and sectorial agreements adopted regarding loan moratoriums and granting of loans guaranteed by the ICO. • Verification of the criteria and methodologies developed by the Group to calculate the necessary provisions under the new context caused by Covid-19. As a result of the previous procedures, we have obtained sufficient and adequate audit evidence to conclude on the reasonableness of the criteria and methodologies used by the Group to classify operations and calculate their impairment. Any difference obtained as a result of our procedures compared to the Group's calculations has been kept within a reasonable range in relation to the amount included on 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,	 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 assessing claims

Key audit matters	How they have been dealt with in the audit
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 or those related to the claim of certain mortgage expenses. 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.	and litigation and allocating provisions, if applicable. • Analysis of the main types of current lawsuits, claims and litigation and associated accounting provisions. • Evaluating the methods and hypotheses used by the Group by verifying their consistency with the applicable accounting framework. • Analysing a selection of lawsuits and claims by verifying the correct grouping of cases by typology for the calculation of provisions. • Verifying the use of historical data to determine the provisions to be maintained. • Obtaining confirmation letters from lawyers and other advisers working with the Group to compare their assessment of the expected outcome of claims or litigation, the completeness of the information, the correct recording of provisions, as well as the identification of potential unrecorded liabilities. • Evaluation of possible contingencies in relation to compliance with tax obligations for periods open for inspection. 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	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

Key audit matters	How they have been dealt with in the audit
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. As a result of the previously explained reasons, this area has been considered as a Key audit matter See notes 3, 13 and 36 of the report on the attached consolidated financial statements.	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. 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

Key audit matters	How they have been dealt with in the audit
	the amount of liabilities per contract included in the attached consolidated financial statements.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2020 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) Verify only that the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, to which the Accounts Audit Law refers, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements, as well as to evaluate and report on whether the content and presentation of this part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

.

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 2020 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 2021.

Appointment period

The Ordinary General Assembly of the Parent Entity at its meeting held on July 17, 2020 appointed PricewaterhouseCoopers Auditores, S.L. as auditors for a period of one year for the year ended December 31, 2020.

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 2021

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020
(Expressed in thousands of euros)

ASSETS	Note	2020	2019 (*)
Cash, cash balances at central Banks and other on demand deposits (**)	**22**	**2,749,066**	**1,745,682**
Financial assets held for trading	**23**	**24,055**	**47,066**
Derivatives		1,975	2,173
Equity instruments		485	576
Debt securities		21,595	44,317
Pro-memoria: provided or given as security with the right to sell or pledge		*2,557*	*5,224*
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	**26**	**49,966**	**50,883**
Equity instruments		47,701	48,673
Debt securities		2,265	2,210
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**	**791,888**	**1,275,239**
Equity instruments		84,186	88,990
Debt securities		707,702	1,186,249
Pro-memoria: provided or given as security with the right to sell or pledge		*63,656*	*60,998*
Financial assets at amortised cost	**25**	**23,215,662**	**20,856,007**
Debt securities		8,232,315	6,412,588
Loans and advances		14,983,347	14,443,419
Pro-memoria: provided or given as security with the right to sell or pledge		*1,473,049*	*1,522,435*
Derivatives – hedge accounting	**27**	**85,324**	**106,525**
Investments in joint ventures and associates	**28**	**315**	**325**
Associates		315	325
Assets covered by insurance or reinsurance contracts	**29**	**28,668**	**28,689**
Tangible assets	**30**	**342,700**	**348,588**
Property, plant and equipment		289,721	297,364
For own use		273,670	279,299
Leased out under operating leases		16,051	18,065
Investment properties		52,979	51,224
Of which: leased out under operating leases		*41,141*	*39,077*
Pro-memoria: acquired under a financial lease		-	-
Intangible assets	**31**	**33,425**	**33,425**
Goodwill		33,425	33,425
Other intangible assets		-	-
Tax assets	**32**	**293,838**	**285,065**
Current tax assets		559	1,242
Deferred tax assets		293,279	283,823
Other assets	**33**	**133,771**	**108,565**
Insurance contracts linked to pensions		-	-
Stocks		94,940	68,127
Rest of other assets		38,831	40,438
Non-current assets and disposal groups classified as held for sale	**34**	**155,468**	**172,361**
TOTAL ASSETS		**27,904,146**	**25,058,420**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)
(**) See details in the consolidated cash flow statement

Notes 1 to 71 and Annexes I to III are an integral part of the consolidated balance sheet as at 31 December 2020.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2020
(Expressed in thousands of euros)

LIABILITIES	Note	2020	2019 (*)
Financial liabilities held for trading	**23**	**994**	**1,215**
Derivatives		994	1,215
Financial liabilities at amortised cost	**35**	**24,984,413**	**22,181,867**
Deposits		24,659,954	21,728,097
Central banks		1,671,065	296,640
Credit institutions		4,575	6,372
Customers		22,984,314	21,425,085
Debt securities issued		59,779	76,840
Other financial liabilities		264,680	376,930
Pro-memoria: subordinated liabilities		-	-
Derivatives – hedge accounting	**27**	**340,810**	**255,198**
Liabilities covered by insurance or reinsurance contracts	**36**	**579,239**	**592,064**
Provisions	**37**	**167,481**	**174,942**
Pensions and other post-employment defined benefit obligations		29,149	24,700
Other long-term employee benefits		-	-
Pending procedural issues and tax disputes		-	-
Commitments and guarantees given		23,433	20,224
Other provisions		114,899	130,018
Tax liabilities	**32**	**65,424**	**78,750**
Current tax liabilities		9,128	12,595
Deferred tax liabilities		56,296	66,155
Other liabilities	**33**	**78,812**	**80,886**
Of which: community projects and welfare fund		*11,060*	*13,914*
Liabilities included in disposal groups of items that have been classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**26,217,173**	**23,364,922**

EQUITY	Note	2020	2019
Equity	**38**	**1,834,906**	**1,764,293**
Capital		777,913	759,608
Paid up capital		777,913	759,608
Pro-memoria: capital not called up		-	-
Accumulated earnings		-	-
Revaluation reserves		-	-
Other reserves		979,389	913,393
Reserves or accumulated losses from investments in joint ventures and associates		(9)	-
Other		979,398	913,393
(-) Treasury stock		(2,081)	(1,839)
Profit/(loss) attributable to owners of the parent entity		79,685	127,364
(-) Interim dividends		-	(34,233)
Other accumulated comprehensive income	**39**	**(147,933)**	**(70,795)**
Items that will not be reclassified to profit or loss		17,567	16,492
Items that may be reclassified to profit or loss		(165,500)	(87,287)
Minority interests (non-controlling interests)		**-**	**-**
Other accumulated comprehensive income		-	-
Other items		-	-
TOTAL NET WORTH		**1,686,973**	**1,693,498**
TOTAL NET WORTH AND LIABILITIES		**27,904,146**	**25,058,420**
Pro-memoria: off-balance sheet exposures			
Financial guarantees granted	**42**	**214,641**	**207,193**
Loan commitments granted	**43**	**1,036,064**	**959,464**
Other commitments granted	**43**	**310,370**	**304,984**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)

Notes 1 to 71 and Annexes I to III are an integral part of the consolidated balance sheet as at 31 December 2020.

LABORAL kutxa

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in thousands of euros)

	Note	2020	2019 (*)
Interest income	**44**	**278,573**	**283,095**
(Interest expenses)	**45**	**23,968**	**33,211**
INTEREST MARGIN		**254,605**	**249,884**
Dividend income	**46**	**4,382**	**7,073**
Profit or loss of entities accounted for using the equity method	**47**	**(9)**	**(9)**
Fee and commission income	**48**	**116,067**	**116,350**
(Fee and commission expenses)	**49**	**12,194**	**12,217**
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**50**	**38,211**	**737**
Profit or (-) loss on financial assets and liabilities held for trading, net	**51**	**(1,005)**	**772**
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	**50**	**(89)**	**5,230**
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**	**(26,726)**	**(62)**
Exchange rate differences [profit or (-) loss], net	**54**	**228**	**501**
Other operating income	**55**	**15,937**	**14,559**
(Other operating costs)	**56**	**52,971**	**50,229**
Of which: mandatory contributions to community projects and welfare funds		*7,751*	*10,332*
Income from assets covered by insurance or reinsurance contracts	**57**	**187,683**	**189,528**
(Expenses for liabilities covered by insurance or reinsurance contracts)	**58**	**121,506**	**133,240**
GROSS MARGIN		**402,613**	**388,877**
(Administration costs)	**59**	**210,045**	**212,770**
(Staff costs)		129,708	130,286
(Other administrative costs)		80,337	82,484
(Amortisation)	**60**	**22,626**	**22,057**
(Provisions or (-) reversal of provisions)	**61**	**21,262**	**15,796**
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit or loss or (-) net gains through modification)	**62**	**59,461**	**(11,391)**
(Financial assets at fair value with changes in other comprehensive income)		631	(160)
(Financial assets at amortised cost)		58,830	(11,231)
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	**63**	**-**	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	**64**	**634**	**1,313**
(Tangible assets)		634	1,313
Profit or (-) loss on derecognition of non-financial assets, net	**65**	**(455)**	**(745)**
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	**66**	**7,226**	**(4,201)**
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**95,356**	**143,386**
(Expenses or (-) income from taxes on earnings from continuing activities)	**40**	**15,671**	**16,022**
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**79,685**	**127,364**
Profit or (-) loss after tax from discontinued operations		**-**	**-**
PROFIT/(LOSS) FOR THE YEAR		**79,685**	**127,364**
Attributable to minority interests (non-controlling interests)		**-**	**-**
Attributable to the owners of the parent company	**38**	**79,685**	**127,364**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)

Notes 1 to 71 and Annexes I to III are an integral part of the consolidated profit and loss account for the year ended 31 December 2020.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in thousands of euros)

	Note	2020	2019 (*)
PROFIT/(LOSS) FOR THE YEAR		**79,685**	**127,364**
OTHER COMPREHENSIVE INCOME		**(77,138)**	**(69,900)**
Items that will not be reclassified to profit or loss		**1,076**	**1,551**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	**39**	1,456	2,132
Income tax related to items that will not be reclassified		(380)	(581)
Items that may be reclassified to profit or loss		**(78,214)**	**(71,451)**
Hedge of net investments in foreign operations (effective portion)		**-**	**-**
Currency conversion		**-**	**-**
Cash flow hedges (effective portion)	**39**	**(73,069)**	**(150,249)**
Profit or (-) loss of value recorded in net equity		(99,391)	(150,249)
Transferred to profit and loss		26,322	-
Other reclassifications		-	-
Hedging instruments (undesignated items)		**-**	**-**
Debt instruments at fair value with changes in other comprehensive income		**(36,345)**	**50,949**
Profit or (-) loss of value recorded in net equity		1,235	51,354
Transferred to profit and loss		(37,580)	(405)
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**	**31,200**	**27,849**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,547**	**57,464**
Attributable to minority interests (non-controlling interests)		-	-
Attributable to the owners of the parent company		2,547	57,464

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)

Notes 1 to 71 and Annexes I to III are an integral part of the consolidated statement of recognised income and expenditure for the year ended 31 December 2020.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in thousands of euros)

As at 31 December 2020

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 01 January 2020	**759,608**	**913,393**	**(1,839)**	**127,364**	**(34,233)**	**(70,795)**	**-**	**1,693,498**
Effects of error corrections	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-
Opening balance as at 01 January 2020 (*)	**759,608**	**913,393**	**(1,839)**	**127,364**	**(34,233)**	**(70,795)**	**-**	**1,693,498**
Total comprehensive income for the year	**-**	**-**		**79,685**	**-**	**(77,138)**	**-**	**2,547**
Other changes in net worth	**18,305**	**65,996**	**(242)**	**(127,364)**	**34,233**	**-**	**-**	**(9,072)**
Issuance of ordinary shares	27,665	135						27,800
Issuance of preference shares	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-
Exercise or maturity of other issued equity instruments	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-
Capital reduction	(9,360)							(9,360)
Dividends (or remuneration paid to partners)								
Purchase of treasury stock			(242)					(242)
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	-	67,300		(101,533)	34,233			-
Increase or (-) decrease in net worth resulting from business combinations	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	(1,439)		(25,831)				(27,270)
Of which: discretionary allocation to community projects and welfare funds	-	-	-	-	-	-	-	-
Closing balance as at 31 December 2020	**777,913**	**979,389**	**(2,081)**	**79,685**	**-**	**(147,933)**	**-**	**1,686,973**

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)

Notes 1 to 71 and Annexes I to III are an integral part of the total statement of changes in consolidated net equity for the year ended 31 December 2020.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2020
(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 2.4)

CAJA LABORAL POPULAR COOP. DE CRÉDITO Y SOCIEDADES DEPENDIENTES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in thousands of euros)

	Note	2020	2019 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**1,005,394**	**210,938**
Profit/(loss) for the year		**79,685**	**127,364**
Adjustments to obtain cash flows from operating activities		**35,684**	**74,699**
Amortisation	**60**	22,626	22,002
Other adjustments (a)		13,058	52,697
Net increase/decrease in operating assets		**(1,939,231)**	**(1,798,352)**
Financial assets held for trading		23,011	80,045
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss		917	11,253
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value with changes in other comprehensive income		446,185	(84,232)
Financial assets at amortised cost		(2,422,384)	(1,847,335)
Other operating assets		13,040	41,917
Net increase/decrease in operating liabilities		**2,829,717**	**1,808,469**
Financial liabilities held for trading		(221)	(678)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		2,802,546	1,918,177
Other operating liabilities		27,392	(109,030)
Income tax receipts/payments		**(461)**	**(1,242)**
B) CASH FLOWS FROM INVESTMENT ACTIVITIES		**5,623**	**15,625**
Payments		**(23,028)**	**(17,531)**
Tangible assets	**30**	(23,028)	(17,198)
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		**28,651**	**33,156**
Tangible assets (b)	**30**	1,385	2,496
Intangible assets		-	-
Investments in joint ventures and associates	**28**	-	-
Subsidiaries and other business units	**28**	-	-
Non-current assets and liabilities classified as held for sale		27,266	30,660
Other receivables related to investment activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(7,633)**	**(54,227)**
Payments		**(9,602)**	**(54,797)**
Dividends	**38**	-	(34,233)
Subordinated liabilities		-	-
Amortisation of own equity instruments	**38**	(9,360)	(6,118)
Acquisition of own equity instruments	**38**	(242)	(219)
Other payments related to financing activities	**4**	-	(14,227)
Receipts		**1,969**	**570**
Subordinated liabilities		-	-
Issuance of own equity instruments	**38**	1,969	570
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)		**1,003,384**	**172,336**
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**1,745,682**	**1,573,346**
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**2,749,066**	**1,745,682**
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		77,841	77,325
Balances of cash equivalents at central banks		2,623,498	1,624,987
Other financial assets		47,727	43,370
Less: Bank overdrafts refundable on demand		-	-

(*) It is presented solely and exclusively, for comparative purposes (Note 2.4)
(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 2020
(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 Ipar Kutxa

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.

On 17 July 2020, the General Assembly approved the amendment of certain articles of the Organisation's articles of association, mainly related to the functioning of its Governing Bodies. The amendments have already been authorised by the Bank of Spain on 14 and 23 October 2020 and have been favourably classified and registered in the Companies Register of Gipuzkoa on 25 November 2020 and in the Register of Cooperative Societies of the Ministry of Labour and Social Economy on 15 February 2021.

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.

<u>Caja Laboral Popular Coop. de Crédito and its subsidiaries</u>

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 2020, the total assets and equity of the Parent Entity represented 97,50%, 95,80% and 99,83%, respectively, of total Group assets and equity (as at 31 December 2019: 97,33%, 95,79% and 99,96%, 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 2020 and 2019, 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 2020:

ASSETS	2020	2019 (*)
Cash, balances in cash with central banks and others		
Demand deposits	2,718,655	1,712,359
Financial assets held for trading	23,570	46,490
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	17,253	18,574
Financial assets at fair value with changes in other comprehensive income	257,533	741,839
Financial assets at amortised cost	23,115,940	20,770,842
Derivatives – hedge accounting	85,324	106,525
Investments in subsidiaries, joint ventures and associates	185,368	163,795
Tangible assets	319,289	324,749
Intangible assets	-	-
Tax assets	292,098	283,073
Other assets	41,189	54,353
Non-current assets and disposal groups of items that have been classified as held for sale	151,029	167,708
Total assets	27,207,248	24,390,307

LIABILITIES AND EQUITY	2020	2019 (*)
Financial liabilities held for trading	994	1,215
Financial liabilities at amortised cost	24,967,498	22,205,042
Derivatives – hedge accounting	340,810	255,198
Provisions	166,649	173,859
Tax liabilities	47,948	63,649
Share capital repayable on demand	-	-
Other liabilities	67,128	69,093
Total liabilities	25,591,027	22,768,056
Own Funds:	1,785,481	1,712,681
Capital	777,913	759,608
Other reserves	928,021	860,082
Profit/(loss) for the year	79,547	127,307
(Interim dividends)	-	(34,316)
Other accumulated comprehensive income	(169,260)	(90,430)
Total net worth	1,616,221	1,622,251
Total net worth and liabilities	27,207,248	24,390,307

PRO-MEMORIA	2020	2019 (*)
Financial guarantees granted	224,731	218,394
Loan commitments granted	1,036,464	962,402
Other commitments granted	331,653	324,629

(*) Presented solely and exclusively for comparative purposes.

(Expressed in thousands of euros)

b) Individual profit and loss account for the year ended 31 December 2020:

	2020	2019 (*)
Interest income	265,730	269,073
(Interest expenses)	23,966	33,203
Interest margin	241,764	235,870
Dividend income	21,895	21,112
Fee and commission income	103,576	103,616
(Fee and commission expenses)	5,773	6,127
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	36,758	66
Profit or (-) loss on financial assets and liabilities held for trading, net	(866)	426
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	561	2,142
Profit or (-) loss from hedge accounting, net	(26,726)	(62)
Exchange rate differences [profit or (-) loss], net	225	501
Other operating income	46,315	41,585
(Other operating costs)	52,947	50,183
Gross margin	364,782	348,946
(Administration costs)	173,267	173,288
(Amortisation)	22,004	21,339
(Provisions or (-) reversal of provisions)	21,262	15,796
(Impairment or (-) reversal of impairment of financial assets not valued at fair value through profit and loss or (-) net gains from modification)	63,345	(8,064)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures or associates)	(5,082)	(5,012)
(Impairment or (-) reversal of impairment of non-financial assets)	598	1,440
Profit or (-) loss on derecognition of non-financial assets and shares, net	(454)	(738)
Profit or (-) loss from non-current assets and disposal groups of items classified as held for sale and not eligible as discontinued operations	1,547	(10,425)
Profit or (-) loss before tax from continuing activities	90,481	138,996
(Expenditure or (-) income from tax on earnings from continuing activities)	10,934	11,689
Profit or (-) loss after tax from continuing activities	79,547	127,307
Profit or (-) loss after tax from discontinued activities	-	-
Profit/(loss) for the year	**79,547**	**127,307**

(*) 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 2020:

	2020	2019 (*)
PROFIT/(LOSS) FOR THE YEAR	**79,547**	**127,307**
OTHER COMPREHENSIVE INCOME	**(78,830)**	**(72,171)**
Items that will not be reclassified to profit or loss	**56**	**929**
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	78	1,290
Income tax related to items that will not be reclassified	(22)	(361)
Items that may be reclassified to profit or loss	**(78,886)**	**(73,100)**
Cash flow hedges (effective portion)	**(73,069)**	**(150,249)**
Profit or (-) loss of value recorded in net equity	(99,391)	(150,249)
Transferred to profit and loss	26,322	-
Debt instruments at fair value with changes in other comprehensive income	**(36,495)**	**48,721**
Profit or (-) loss of value recorded in net equity	(368)	48,388
Transferred to profit and loss	(36,127)	333
Other reclassifications		
Income tax related to items that can be reclassified in profit or (-) loss	**30,678**	**28,428**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**717**	**55,136**

(*) Presented solely and exclusively for comparative purposes.

d) Total statement of changes in individual equity for the year ended 31 December 2020

Changes during the 2020 financial year

	Own funds	Other accumulated comprehensive income	Total net worth
Opening balance as at 01 January 2020	**1,712,681**	**(90,430)**	**1,622,251**
Effects of error corrections	-	-	-
Effects of changes in accounting policies	-	-	-
Opening balance as at 01 January 2020	**1,712,681**	**(90,430)**	**1,622,251**
Total comprehensive income for the year	**79,547**	**(78,830)**	**717**
Other changes in net worth			
- Issuance of ordinary shares	27,800	-	27,800
- Capital reduction	(9,360)	-	(9,360)
- Dividends (or remuneration paid to partners)	-	-	-
- Transfers between components of equity	-	-	-
- Other increases or (-) decreases in equity	(25,187)	-	(25,187)
Total other changes in net worth	**(6,747)**	**-**	**(6,747)**
Closing balance as at 31 December 2020	**1,785,481**	**(169,260)**	**1,616,221**

(Expressed in thousands of euros)

Changes during 2019 (*)

	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**

(*) Presented solely and exclusively for comparative purposes.

e) Individual cash flow statement for the year ended 31 December 2020:

	2020	2019 (*)
Cash flows from operating activities:	**1,023,885**	**210,561**
Profit/(loss) for the year	79,547	127,307
Adjustments made to obtain cash flows from operating activities	150,705	76,125
Net Increase/Decrease in operating assets	(1,894,809)	(1,838,006)
Net Increase/Decrease in operating liabilities	2,688,903	1,846,377
Income Tax Receipts/(Payments)	(461)	(1,242)
Cash flows from investing activities	**(10,198)**	**3,497**
Payments	(77,490)	(67,438)
Receipts	67,292	70,935
Cash flows from financing activities	**(7,391)**	**(54,091)**
Effect of exchange rate changes	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**1,006,296**	**159,967**
Cash and cash equivalents at the beginning of the year	**1,712,359**	**1,552,392**
Cash and cash equivalents at the end of the year	**2,718,655**	**1,712,359**

(*) 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 2020 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 2020.

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 2020 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 2020 were prepared by the directors of the Group's Parent Company at the meeting of the Governing Board held on 26 February 2021, 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 2020 and 2019 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 2020 and 2019 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 2020 and 2019 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 2020 and 2019 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 2020 and 2019, 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 2020 and 2019, 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 2020 and 2019, 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

There were no changes to the scope of consolidation of the Caja Laboral Group during the 2020 financial year.

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 euros, representing 28.57% of the capital of the new associated entity (see Annex I).

2.3 Entry into force of IFRS 16, leases

IFRS 16 (effective for the annual periods beginning after 1 January 2019, with the option of early adoption, which the Group 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 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).

- The Group applied the practical solution permitted by the Standard of not assessing on first application whether contracts represent a lease under the new definition and, therefore, applied IFRS 16 to those 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 euros at the date of initial application for leases previously classified as an operating lease using IAS 17. The Group measured this lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application, i.e. 2.5%, which is the best estimate of the marginal cost of financing at the time of the initial contract for unsecured financing of a similar term.

- The Group recognised an asset for the right of use, valued at 34,544 thousand euros 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.

- 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 longest 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. Similarly, the Group revises index-linked payments when, in accordance with the contractual terms and conditions, the amounts of these payments need 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.

2.4 Comparative information

IFRS 16 came into force on 1 January 2019, the initial impact of which is described in Note 2.3.

In addition, the cost for the tax on Deposits in Credit Institutions, which in 2019 was included under "Administrative costs - Other administrative costs" for an amount of 6,097 thousand euros, has been reclassified to "Other operating costs" in these consolidated annual accounts in order to make it comparable with the current year.

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 2020 is presented in all cases, for comparison purposes, with reference to the figures for 2019. The information relating to 2019 is presented solely for the purposes of comparison with 2020 and does not form part of the Group's consolidated annual accounts for 2020.

2.5 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 2020.

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:

- 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).

As a result of the crisis generated by the worldwide spread of the COVID-19 pandemic, the Entity has reassessed the estimates shown in these annual accounts, taking into account the potential effects of the current economic and financial situation (Note 13.a). Therefore, the estimates provided in the previous paragraph include, where appropriate, the impact of the COVID-19 crisis. Where the effect of COVID-19 has been considered significant, additional information has been included in relation to these annual accounts.

Since these estimates have been made on the basis of the best information available as at 31 December 2020 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 2020 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

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of materiality (or relative importance)":

  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.

  The modifications shall apply for annual periods starting as from 1 January 2020.

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

- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) “Interest Rate Benchmark Reform”:

  These modifications provide certain exemptions with regard to the reform of the reference interest rate (IBOR). The exemptions relate to hedge accounting and have the effect that the IBOR reform should generally not cause hedge accounting to stop. However, any hedge inefficiency must continue to be recorded in the income statement.

The modifications shall apply for annual periods starting as from 1 January 2020.

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

- 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.

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

- Amendments to references to the Conceptual Framework in IFRS:

  The IASB has issued a revised conceptual framework to be used in the development of accounting standards. Although no changes are made to any of the existing accounting standards, entities that rely on the conceptual framework to determine their accounting policies for transactions, events or conditions that are not under the scope of the issued accounting standards will have to apply the revised conceptual framework from 1 January 2020.

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

- IFRS 16 (Amendment) 'COVID-19 related rent reductions':

  The IASB has published an amendment to IFRS 16 "Leases" that provides an optional practical exemption for tenants when assessing whether a rental concession related to COVID-19 is a lease modification. Tenants may elect to account for such lease concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendment does not provide the same facility for lessors, who have to apply the current requirements of IFRS 16 and consider whether or not there has been an amendment to the relevant lease.

  For the purposes of EU-IFRS, the amendments are to be applied retrospectively and apply at the latest from 1 June 2020 for financial years beginning on or after 1 January 2020.

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

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

At the date of preparation of these consolidated annual accounts, the following standards, amendments and interpretations have been published by the IASB and the IFRS Interpretations Committee, although the Group has not adopted them in advance.

- IFRS 4 (Amended) "Extending the temporary exemption from IFRS 9".:

  In line with the deferral of the effective date of IFRS 17 "Insurance Contracts", the amendment changes the expiry date for the temporary exemption in IFRS 4 "Insurance Contracts" from the application of IFRS 9 "Financial Instruments", requiring entities to apply IFRS 9 for annual periods beginning on or after 1 January 2023, rather than 1 January 2021.

- IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment) “Reference interest rate reform: Phase 2”: The IASB has undertaken a two-stage project to consider what exemptions, if any, to provide for the purposes of reference interest rate reform ("IBOR"). The Phase 1 amendments, issued in September 2019, provided temporary exemptions from the application of specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform ("the Phase 1 exemptions"). Phase 2 amendments address issues arising from the implementation of the reforms, including the replacement of one reference rate with an alternative reference rate.

  The amendments will apply for annual periods beginning on or after 1 January 2021, although earlier application is permitted.

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

At the date of preparation of these consolidated annual accounts, the following standards, amendments and interpretations have been published by the IASB and the IFRS Interpretations Committee and 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 effective for annual periods beginning 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.

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

- 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 was intended to be applied for annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are also applied.

  However, in response to some of the concerns and challenges raised in relation to the implementation of IFRS 17, the IASB has developed specific amendments and clarifications aimed at facilitating the implementation of the new standard, although the amendments do not change the fundamental principles of the standard.

In addition, the mandatory effective date of IFRS 17 has been postponed until annual periods beginning on or after 1 January 2023. The amendment to 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.

- IAS 1 (Amendments) "Classification of liabilities as current or non-current":

  These amendments clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The classification is not affected by the entity's expectations or by events after the reporting date (for example, receipt of a waiver or breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the "settlement" of a liability. The effective date of these amendments is 1 January 2022, although their early adoption is permitted.

  However, in July 2020 there was an amendment to change the date of entry into force of the amendment to 1 January 2023. These amendments are 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.

- IAS 16 (Amendment) "Property, plant and equipment - Revenue obtained before intended use":

  It is prohibited to deduct, from the cost of an item of property, plant and equipment, any revenue from the sale of items produced while the entity is preparing the asset for its intended use. Revenues from the sale of such samples, together with production costs, are now recognised in profit or loss. The amendment also clarifies that an entity is testing whether the asset is functioning correctly when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant for this assessment. Therefore, an asset could be capable of operating as intended by management and be subject to depreciation before it has reached the level of operating performance expected by management. The effective date of these amendments is 1 January 2022. This amendment 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.

- IAS 37 (Amendment) "Onerous contracts - Cost of fulfilling a contract":

  The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling such a contract and an allocation of other costs that are directly related to the fulfilment of the contracts. It also clarifies that before making a separate provision for an onerous contract, an entity shall recognise any impairment loss that has occurred on the assets used to fulfil the contract, rather than on the assets dedicated to that contract. The effective date of these amendments is 1 January 2022. The amendment 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) "Reference to the Conceptual Framework".:

  IFRS 3 has been updated to refer to the 2018 Conceptual Framework for determining what constitutes an asset or liability in a business combination (previously referred to the 2001 CF). Also, a new exception has been added in IFRS 3 for liabilities and contingent liabilities. The effective date of these amendments is 1 January 2022. The amendment 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.

Annual Improvements in the IFRS. Cycle 2018 – 2020:

The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and apply for the financial years beginning on or after 1 January 2022. The main modifications are related to:

- IFRS 1 "First-time adoption of IFRS": IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. This amendment allows entities that have taken this exemption to also measure cumulative conversion differences using the parent's carrying amounts, based on the date of the parent's transition to IFRS.

- IFRS 9 "Financial Instruments": The amendment addresses which costs should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to third parties or to the lender. According to the amendment, costs or fees paid to third parties will not be included in the 10% test.

- IFRS 16 "Leases": The Illustrative Example 13 that accompanies IFRS 16 has been amended to remove the illustration of the lessor's payments in relation to leasehold improvements, thereby eliminating any potential confusion about the treatment of lease incentives.

- IAS 41 "Agriculture": This amendment removes the requirement to exclude cash flows for tax purposes when measuring fair value under IAS 41.

  Annual improvements are 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.

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 2020 and 2019 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 that specified in note 2.3.

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.

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.

Due to the global pandemic resulting from the spread of the COVID-19 virus, the Banco de España has extended the recommendations issued by the European Central Bank in March, July and December 2020 to limit the distribution of dividends or other remuneration to members to the Entities under its supervision.

(Expressed in thousands of euros)

As a result of the regulators' recommendations issued in March, the Governing Board agreed at its meeting of 29 May 2020 to amend the proposed distribution of profit included in the notes to the annual accounts for 2019, in accordance with the provisions of article 40 of Royal Decree-Law 8/2020, on extraordinary urgent measures in order to address the economic and social impact of COVID-19, and its subsequent amendments. The above mentioned amendment assigns the allocation to the Intercooperative Social Fund in the amount of 15,498 thousand euros to a Voluntary Distributable Reserve Fund. The General Assembly approved this distribution of results at its meeting on 17 July 2020.

The proposed distribution of the Parent Entity's surplus for 2020 which the Governing Board of the Parent Entity will submit for the approval of the General Assembly, and that approved for 2019, is as follows:

	2020	2019
Distribution:		
- Gross interest on contributions to Share capital (Note 38) (*)	9,784	34,316
- Mandatory Reserve Fund	38,757	51,662
- Education and Development Fund (**)	-	-
- Cooperative Returns	19,379	25,831
- Voluntary Distributable Reserve Fund	11,627	15,498
Profit/(loss) for the year	79,547	127,307

(*) In the 2019 financial year, this interest was distributed during the financial year on account of the application of the gross surplus for the year and prior to the start of the COVID-19 crisis.

(**) The amount allocated to the Education and Development Fund corresponds to the minimum mandatory sum of 7,751 thousand euros in 2020 and 10,332 thousand euros in 2019 (Note 56).

The proposed distribution of the surplus was made in accordance with the European Central Bank's Recommendation ECB/2020/62 of December 2020, adopted by the Banco de España. The Bank has notified the Bank of Spain of its proposed distribution of interest to capital in January 2021.

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.

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 301 branch offices, as at 31 December 2020, with 183 located in the Autonomous Community of the Basque Country, 40 in Navarra and 78 in the rest of Spain (304 branches as at 31 December 2019, 184 in the Autonomous Community of the Basque Country, 40 in Navarra and 80 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.

(Expressed in thousands of euros)

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 2020 and 2019, are shown below:

	2020		
	Retail Banking	**Insurance Business**	**Group Total**
Consolidated profit and loss account:			
Contribution to gross margin	361,817	40,796	402,613
Administration costs	186,716	23,329	210,045
Profit/(loss) for the year	65,288	14,397	79,685
Consolidated balance sheet:			
Total assets	27,127,171	776,975	27,904,146

	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

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 2015-2019 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 from 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.

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

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

(Expressed in thousands of euros)

The Group's management its own funds is in line, as far as conceptual definitions are concerned, with the provisions of the solvency regulations described above:

	2020	2019
Common Equity Tier 1 (CET1)		
Capital	777,906	759,601
Qualifying results	69,901	77,550
Reserves	979,389	913,393
Valuation adjustments	(147,932)	(70,794)
(-) Other deductions	(62,908)	(62,189)
(-) CET1 adjustments due to prudential filters	188,420	114,075
	1,804,776	1,731,636
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	1,804,776	1,731,636
Total minimum equity	680,951	686,912
Risk weighted assets	8,511,884	8,586,398

As at 31 December 2020 and 2019, the most important data on the Group's minimum equity are as follows:

	2020	2019
CET 1 ratio	21.20%	20.17%
Tier 1 capital ratio	21.20%	20.17%
Total capital ratio	21.20%	20.17%

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.

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.

(Expressed in thousands of euros)

As at 31 December 2020 and 2019, as well as throughout 2020 and 2019, 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 2,623,498 thousand euros as at 31 December 2020 (1,624,987 thousand euros as at 31 December 2019) (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 Parent 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	
	2020	2019
Chairman of the Governing Board	135	167
	135	167

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 2020 (4 working partners as at 31 December 2019) for the performance of their duties were as follows:

	Remuneration short-term and subsistence allowance	
	2020	2019
Members of the Governing Board	254	261
	254	261

Also, 11 people have been considered as Senior Management personnel of the Parent Entity, who are members of the Board of Directors as at 31 December 2020 (9 people as at 31 December 2019).

(Expressed in thousands of euros)

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

	Remuneration short-term and subsistence allowance	
	2020	2019
Senior management	1,433	1,106
	1,433	1,106

In addition, the yield on capital (interest) and the remuneration received as a complementary distribution of the available surplus (cooperative returns) by the members of the Governing Board and Senior management in 2020 and 2019 totalled 216.95 thousand euros and 243.46 thousand euros, respectively.

In addition to the amounts accrued during the year to the members of the Parent 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 2020 and 2019 in relation to the members of the Parent Entity's Governing Body and Senior Management:

	Financial income		Financial costs		Fee and commission income	
	2020	2019	2020	2019	2020	2019
Governing Board Members and Senior Management	3	5	-	-	5	5

The members of the Parent 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 2020 and 2019.

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 2020 and 2019:

	Assets- loans granted (gross amount)		Assets-credit accounts (gross amount)		Liabilities-On demand and term deposits		Guarantees and commitments	
	2020	2019	2020	2019	2020	2019	2020	2019
Governing Board Members and Senior Management	1,838	1,887	-	-	2,035	1,240	-	-

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 2020 and 2019, 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 2020 and 2019.

9. Environmental impact

The Group's global operations are governed, inter alia, by Laws on environmental protection 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 2020 and 2019, 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. Single Resolution Fund and 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 2020, the cost incurred for the contribution to this body amounted to 3,458 thousand euros (3,131 thousand euros in the 2019 financial year) (Note 56), which has been recorded in accordance with IFRIC 21 in a way similar to the cost 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 2020 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2020 (in the 2019 financial year, the Management Committee established a contribution of 1.8 per thousand of the guaranteed deposits on 30 June 2019). 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 (modified by the Circular 1/2018). Furthermore, the contribution to the securities guarantee fund has been set at 0.2% of each 5% of the guaranteed amount of the securities and other financial instruments as at 31 December 2020

The expense for ordinary contributions referred to in the above paragraph accrues in accordance with IFRIC 21, when the obligations exist 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 2020, the Parent Entity had recorded this commitment for the amount of 7,046 thousand euros (10,568 thousand euros as at 31 December 2019) 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 2014 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 2020, the cost incurred for all contributions to this Fund totalled 29,346 thousand euros (26,509 thousand euros in 2019), 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 2020 amounted to 464 thousand euros (430 thousand euros in 2019).

Other services provided by PricewaterhouseCoopers Auditores, S.L. and other firms associated with the PricewaterhouseCoopers trademark amounted to 91 thousand euros in 2020 (101 thousand euros in 2019). Of these Other services, during the 2020 financial year the services provided to the Group by PricewaterhouseCoopers Auditores, SL, other than the audit of accounts, amounted to 87 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 2019 financial year the services provided to the Group by PricewaterhouseCoopers Auditores, SL, other than the audit of accounts, amounted to 94 thousand euros and corresponded 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).

12. Events after the balance sheet date

In the period between 31 December 2020 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.

During the 2020 financial year, the spread of the COVID-19 pandemic created a global health emergency that forced governments around the world to adopt severe restrictions on population mobility, with its consequent impact on the world economy. In the case of Spain, in March the government published Royal Decree 463/2020 of 14 March 2020, declaring a state of alarm and adopting measures against the spread of the pandemic. As a consequence of this declaration, together with its subsequent extensions and the additional RDLs that followed, as well as the uncertainties about the future development of this health crisis, a very serious crisis has been unleashed on the Spanish economy, affecting both companies and individuals.

Against this background, the Entity has developed and applied, where necessary, contingency plans to deal with these circumstances, guaranteeing business continuity in the most normalised way possible given the extraordinary circumstances described. To this end, organisational crisis management measures have been implemented which have proved to be perfectly compatible with the continuity of the activity and the business. The Entity is prepared to reinstate or extend these measures over time, if necessary, to maintain the activity.

At the date of authorisation of these annual accounts, there is still uncertainty about the economic and financial impacts of the crisis generated by the pandemic, as well as its duration. However, after assessing the potential effects of the COVID-19 crisis on the main estimates included in these annual accounts, Management considers that it has high levels of solvency and liquidity that enable it to more than sustain business continuity in an environment such as the current one.

b) Accrual's 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 Group conducts the relevant efficiency tests which show 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. Hedging instruments that can be used are mainly Interest Rate Swaps (IRS), Call Money Swaps (CMS), FRAs, Interest Rate Futures, Bond Futures, Equity Index Futures, Equity Futures, Forward Foreign Exchange Swaps, Interest Rate Options, Equity Index Options, Equity Options, Currency 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 2020, the deposits received and delivered as collateral guarantee amount to 22,310 and 291,873 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" (63,010 and 250,578 thousand euros, respectively in the year 2019) (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

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.

<u>Business model</u>

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.

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

vi) 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.

vii) Investments in joint ventures and associates which include equity instruments in Multi-group or Associated Entities.

Multi-group 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.

viii) 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.

ix) Non-current assets and disposal groups that have been classified as held for sale of a financial nature corresponding to the carrying amount of individual items, integrated in a disposal group or forming part of a business unit that are intended to be disposed of (discontinued operations) and the sale of which is highly likely to be completed, in the condition in which such assets are currently held, within one year from the annual accounts reporting date. 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 to identify the direct and incremental transaction costs of asset operations. As a result, certain identified transaction costs are 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.

Reclassification between financial instrument portfolios

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.

During 2020 and 2019 there were 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 is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about that group is also provided on a fair value basis to key management personnel.

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) 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 at amortised cost unless the Group has designated them as Financial liabilities at fair value through profit or loss, if they qualify.

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.

vii) Liabilities included in disposal groups classified as held for sale which relate to the credit balances arising from 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 at fair value through profit or 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 2020 and 2019 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.

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 models for monitoring 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.

<u>Criteria for hedge estimates</u>

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 surveillance), except for exposures classified as normal under special surveillance which, in accordance with the Group's policies, are subject to individual estimation.

   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 significant provisions for this item at the close of 2020 and 2019, 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 "Financial assets at fair value through other comprehensive income" and/or "Financial assets held for trading", the Parent Company considers that impairment has occurred in the event of default on principal or coupon payments exceeding 90 days when other indications of impairment become apparent, in accordance with the Group's credit risk monitoring policies.

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

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.

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 2020 and 2019:

	2020		2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollars	105,245	32,092	119,034	29,844
Pounds sterling	1,203	5,547	773	1,109
Japanese yen	4,915	176	653	136
Swiss franc	166	93	195	29
Other	219	1,224	143	242
	111,748	39,132	120,798	31,360

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 2020 and 2019 is as follows:

(Expressed in thousands of euros)

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and other on demand deposits	13,923	-	8,575	-
Financial assets held for trading	-	-	38	-
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	8,853	-	9,252	-
Financial assets at fair value with changes in other comprehensive income	18,877	-	22,501	-
Financial assets at amortised cost	68,874	-	80,432	-
Hedge accounting derivatives	1,221	-	-	2,225
Financial liabilities held for trading	-	-	-	38
Financial liabilities at amortised cost	-	37,565	-	28,444
Commitments and guarantees given	-	1,567	-	653
	111,748	39,132	120,798	31,360

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 2020 and 2019 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 fees accrued in 2020 and 2019 by product are as follows: Financial fees and commissions earned in 2020 amounted to a total of 7,513 thousand euros (6,755 thousand euros in 2019).

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 guarantees provided are classified according to the insolvency risk attributable to the customer or to the transaction, and the need to set up provisions for them is estimated by applying criteria similar to those indicated in Note 13.h.

Provisions for these transactions are recorded under "Provisions - Commitments and guarantees provided" on the liability side of the consolidated balance sheet (Note 37). Provisions and reversals of provisions are recorded under "Provisions or reversal of provisions" in the consolidated profit and loss account.

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 2020 and 2019 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, 2018 and 2019, 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 2020 and 2019 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 2020 and 2019 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 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 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 2020 and 2019 is recognised under "Provisions – Pensions and other post-employment defined benefit obligations" on the balance sheet as at that date (Note 37).

PD 61

In addition, during 2020, the Parent Company formalised a plan known as "PD 61", approved by the Governing Board and aimed at a specific group of working partners, with a period of validity from 1 January 2021 to 30 June 2024. 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 1961 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 2020 is recognised under "Provisions – Pensions and other post-employment defined benefit obligations" on the balance sheet as at that date (Note 37).

PD 62

In addition, during 2020, the Parent Company formalised a plan known as "PD 62", approved by the Governing Board and aimed at a specific group of working partners, with a period of validity from 1 January 2021 to 30 June 2024. 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 1962 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 2020 is recognised under "Provisions – Pensions and other post-employment defined benefit obligations" on the balance sheet as 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 treated as an expense and is recognised under "Income tax expenditure or income from continuing operations" in the consolidated profit and loss account.

The expenditure under the heading "Tax expenditure or income on the earnings 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.

These plans and projections have been updated taking into account the amount for COVID-19 in the current economic environment based on the best information available to management.

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 (repealed by Circular 4/2017). That fair value as at 1 January 2004 has been obtained based on independent expert valuations.

In the case of foreclosed assets, the acquisition cost relates to the lower of the net amount of the financial assets delivered in exchange for their foreclosure or the fair value at the time of foreclosure less estimated selling costs.

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 provision 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 2020 and 2019 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 Parent Company's senior management understand that the conclusion of these proceedings and claims will not have a significant effect, additional to that included as a provision, in the consolidated annual accounts for the years in which they are concluded.

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.ix). 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.

These valuations could be affected by the changes in property market prices and other macroeconomic variables due to the COVID-19 crisis. In this regard, although a decline in real estate market activity has been detected in 2020, no significant drop in valuations has been identified. Thus, the impairment losses recognised on foreclosed real estate assets or assets received in payment of debts recorded by the Parent Company as at 31 December 2020 correspond to the best estimate made by Senior Management at the date of preparing these consolidated annual accounts.

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.

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 expenditure recognised 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 this 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: shall include gains or losses for the period on these instruments other than those due to impairment or exchange rate differences, which shall be recorded, respectively, under the headings "impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss" and "exchange rate 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 cannot 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 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 cannot 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 time/period is typically 5 years, after which a recurrent level is reached both in terms of return and profitability. For this purpose, the economic scenario prevailing at the time of valuation is taken into account.

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

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

- The estimate made to assess the potential impairment of goodwill has been carried out taking into consideration the current crisis scenario due to the spread of COVID-19.

Goodwill impairment losses are not subsequently reversed.

(Expressed in thousands of euros)

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., 7.512 cases were brought in 2020 (6.438 in 2019), of which 6.736 were admitted (5.584 in 2019), which were responded to. 791 cases were not admitted (854 in 2019) for the reasons set out in the Customer Care Regulations as grounds for rejecting complaints or claims.

	2020	2019
No. case files opened		
- In writing: brochure / letter	5,237	5,057
- Internet	1,752	988
- By telephone	1	3
- Public bodies: OMIC / Autonomous Governments	522	390
	7,512	**6,438**
No. case files processed	**6,736**	**5,584**
Nature of the Files		
- Complaints	5,357	4,937
- Claims	2,110	1,319
- Queries	1	13
- Suggestions	1	13
- Letters of congratulation / gratitude	2	2
- Sundry petitions	41	148
- Others	-	6
	7,512	**6,438**

	2020	2019
Amounts claimed		
- Amounts relating to cases for which the decision favoured the Entity	2,155	1,149
- Amounts relating to cases for which the decision favoured the Customer:	225	69
- Indemnities paid by the Entity	225	69
	2,380	**1,218**

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

	2020	2019
Economic terms	2%	14%
Commissions and expenses	86%	73%
Missing or inaccurate information	-	1%
Centralised customer services	2%	3%
Offices by objective elements	4%	3%
Covering needs	-	1%
Aspects of customer relations	2%	2%
Others:	4%	3%
- Speed and efficiency at ATMs	*3%*	*1%*
- Miscellaneous	*1%*	*2%*
	100%	100%

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

(Expressed in thousands of euros)

	2020	2019
= < €10	0.02%	0.05%
> 10 < = €60	0.13%	0.35%
> 60 < = € 100	0.12%	0.21%
> 100 < = € 250	1.19%	0.73%
> 250 < = € 1,000	39.54%	36.32%
> €1,000	59.00%	62.35%

With respect to the Customer Service activity of Seguros Lagun Aro Vida, S.A., 36 complaints and grievances were received in 2020 (35 in 2019), and 34 cases were processed during 2020 (35 processed in 2019). The outcome of cases handled in 2020 and 2019 were as follows:

	2020	2019
In favour of the customer	16	11
In favour of the entity	17	23
Others	1	1
	34	35

The total cost of complaints and claims resolved in favour of customers amounted to 10 thousand euros in 2020 (56 thousand euros in 2019). Complaints and claims have on average been addressed within 7.41 days (8.71 days in 2019).

With respect to the Customer Service activity of Seguros Lagun Aro, S.A., 660 complaints and claims were received during the financial year (660 in 2019) and 643 cases were processed in 2020 (658 in 2019).

The outcome of cases handled in 2020 and 2019 were as follows:

	2020	2019
In favour of the customer	317	335
In favour of the entity	306	303
Others	20	20
	643	658

The cost to the Entity of total complaints and claims in favour of customers amounted to 72 thousand euros in 2020 (60 thousand euros in 2019). The average response time in 2020 was 11.29 days (10.44 days in 2019).

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 2020 (10 in 2019), and 11 cases were processed during 2020 (9 in 2019).

(Expressed in thousands of euros)

The outcome of cases handled in 2020 and 2019 was as follows:

	2020	2019
In favour of the customer	1	-
In favour of the entity	1	-
Others	9	9
	11	9

The cost to the Entity of total complaints and claims in favour of customers amounted to 0 euros in 2020 (€0 in 2019). The average response time in 2020 was 2.36 days (0.44 days in 2019).

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 29 January 2021, and other related documents such as: Summary-Risk Policy Manual and Good Practice Manuals for Domestic and Commercial Risk.

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.

During the year, as a result of the pandemic situation and its disparate effect on different sectors of the economy, the Parent Entity has reinforced its risk control methodologies both domestic and for businesses and companies. With regard to household risk, the Group periodically reviews the behaviour as regards doubtful loans of customers covered by public or private moratoriums. In the area of businesses and companies, it has also designed various analyses with a sectoral focus with the aim of focusing on the progress of the sectors most affected by the economic slowdown and detecting possible patterns of correlations in potential non-payments.

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.

- 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 29 January 2021, 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.

(Expressed in thousands of euros)

Below is the breakdown by counterpart of the Loans and advances - Clients (not including "Other financial assets"), as at 31 December 2020 and 2019, 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:

2020

				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)	890,866	15,509	-	6,089	5,403	-	-	4,017
Other financial companies and individual entrepreneurs (financial business activity)	29,822	6,478	69	2,205	3,330	775	69	169
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down according to purpose)	2,701,441	783,327	10,827	348,669	217,362	135,420	25,712	66,991
– Property construction and development (including land)	33,006	30,262	-	1,771	6,716	4,311	1,985	15,479
– Public works construction	50,050	7,080	13	3,563	2,556	786	67	121
– Other purposes	2,618,385	745,985	10,814	343,335	208,090	130,323	23,660	51,391
Large companies	500,969	35,246	-	12,257	2,518	4,156	1,242	15,073
SMEs and individual entrepreneurs	2,117,416	710,739	10,814	331,078	205,572	126,167	22,418	36,318
Other households (broken down by purpose)	10,774,994	9,929,009	17,339	2,741,238	2,971,952	2,871,101	599,428	762,629
– Homes	10,030,432	9,771,963	15,118	2,657,545	2,931,688	2,850,119	596,111	751,618
– Consumer	413,680	31,166	746	21,547	5,546	2,643	767	1,409
– Other purposes	330,882	125,880	1,475	62,146	34,718	18,339	2,550	9,602
TOTAL	**14,397,123**	**10,734,323**	**28,235**	**3,098,201**	**3,198,047**	**3,007,296**	**625,209**	**833,806**
PRO MEMORIA								
Loan refinancing and restructuring transactions	183,341	152,561	218	30,989	34,690	26,338	13,361	47,401

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)

A breakdown of the Parent Entity´s maximum credit risk covered by each of the primary guarantees as at 31 December 2020 and 2019 is set out below:

	2020							
	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	11,790,716	21,146	326,111	1,239,413	1,893,808	(536,164)	(291,276)	14,443,754
Value of the guarantee	26,128,265	31,530	1,182,627	1,100,651	29,596	-	-	28,472,669

	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

The value of the guarantees received to secure payment in connection with customer transactions, distinguishing between collateral and other guarantees as at 31 December 2020 and 2019, is as follows:

Value of guarantees received	**2020**	**2019**
Value of security interests	27,310,892	27,258,018
Of which: doubtful risks guarantees	*526,222*	*658,691*
Value of other guarantees	1,161,777	791,360
Of which: doubtful risks guarantees	33,949	36,433
Total value of guarantees received	**28,472,669**	**28,049,378**

The following is information about the value of the financial guarantees granted as at 31 December 2020 and 31 December 2019:

	2020	**2019**
Loan commitments granted	1,036,064	959,464
Of which: amount classified as doubtful	*5,997*	*5,923*
Amount recorded under liabilities on the balance sheet	-	-
Financial guarantees granted	214,641	207,193
Of which: amount classified as doubtful	*22,283*	*22,355*
Amount recorded under liabilities on the balance sheet	15,026	13,985
Other commitments granted	310,370	304,984
Of which: amount classified as doubtful	*8,730*	*10,647*
Amount recorded under liabilities on the balance sheet	8,406	6,239

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:

(Expressed in thousands of euros)

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 2020 and 2019 is as follows:

	2020		
	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)	**60,869**	**27,233**	**27,864**
Of which: with default / doubtful	27,958	17,211	18,914
Pro memoria:			
Failed assets	95,826		

Pro memoria:	**Amount**
- Loans to customers excluding Public Administrations (businesses in Spain)	13,506,256
- Total assets (total businesses)	27,904,147
- Impairment of value and provisions for exposures classified as not doubtful (total businesses)	122,749

	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	96,975		

Pro memoria:	**Amount**
- Loans to customers excluding Public Administrations (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

The following is a breakdown of financing for construction, real estate promotion and home purchase as at 31 December 2020 and 2019:

	Financing for construction and real estate promotion Gross book value	
	2020	**2019**
Without property guarantee	13,065	14,053
With property guarantee	47,804	53,350
Buildings and other finished constructions	31,055	36,705
Home	26,148	30,320
Others	4,907	6,385
Buildings and other constructions in progress	1,562	1,555
Home	1,512	1,505
Others	50	50
Land	15,187	15,090
Urban land	13,917	13,750
Other land	1,270	1,340
Total	**60,869**	**67,403**

(Expressed in thousands of euros)

The breakdown of credit to households for home purchase as at 31 December 2020 and 2019 is as follows:

	2020		2019	
	Gross book value	Of which: doubtful	Gross book value	Of which: doubtful
Loans for home purchase	9,791,926	169,531	9,630,766	183,423
Without mortgage guarantee	209,848	2,905	196,445	3,021
With mortgage guarantee	9,582,078	166,626	9,434,321	180,402

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 2020 and 2019 is as follows:

	Gross book value in relation to the amount of the last valuation *(loan to value))*					
	2020					
	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	2,501,067	2,876,405	2,826,406	595,146	783,054	9,582,078
Of which: with default / doubtful	14,214	21,833	27,996	26,103	76,480	166,626

	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

(Expressed in thousands of euros)

The breakdown of assets received in payment of debt as at 31 December 2020 and 2019 is as follows:

	2020		2019	
	Gross book value	Accumulated impairment value	Gross book value	Accumulated impairment value
Real estate assets from financing of construction and real estate promotion	**646,180**	**454,503**	**664,710**	**486,640**
Buildings and other finished constructions	31,624	22,039	45,832	31,694
Home	6,577	4,100	13,054	7,061
Others	25,047	17,939	32,778	24,633
Buildings and other constructions in progress	166,047	70,895	141,199	72,407
Home	121,071	54,725	106,601	53,276
Others	44,976	16,170	34,598	19,131
Land	448,509	361,569	477,679	382,539
Urban land	190,468	157,996	224,777	183,737
Other land	258,041	203,573	252,902	198,802
Real estate assets from mortgage financing to households for home purchase	27,214	7,986	**28,950**	**8,424**
Other real estate assets foreclosed or received in payment of debts	38,956	17,518	**43,740**	**18,243**
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
Total	**712,350**	**480,007**	**737,487**	**513,308**

The value of guarantees received linked to financing for construction and real estate development as at 31 December 2020 and 2019 is as follows:

Value of guarantees received– Construction and real estate development	2020	2019
Value of security interests	188,217	194,072
Of which: doubtful risks guarantees	*59,715*	*87,596*
Value of other guarantees	2,570	3,525
Of which: doubtful risks guarantees	-	*486*
Total value of guarantees received	**190,787**	**197,597**

The value of the financial guarantees granted for operations for construction and real estate development as at 31 December 2020 and 2019 is as follows:

	2020	2019
Financial guarantees granted for construction and real estate development	32,009	30,645
Amount recorded under liabilities on the balance sheet	1,834	1,986

In compliance with Law 8/2012, as at 31 December 2020 and 2019, 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 2020 and 2019 amounted to 441,643 thousand euros and 511,236 thousand euros, respectively. As at 31 December 2020, the balance of financing and capital or shareholder contributions to said companies amounted to 441,643 thousand euros and 127,904 thousand euros, respectively (511,236 and 113,218 thousand euros, respectively, as at 31 December 2019) which at said date recorded an impairment adjustment of 343,472 and 63,489 thousand euros, respectively (399,148 and 70,375 thousand euros, respectively, as at 31 December 2019).

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.

Circular 3/2020, which amends the accounting treatment of refinancing and restructuring operations, came into force in 2020. Where refinancing and/or restructuring operations do not qualify as normal, they shall be classified as:

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 under any of the types below, but exhibits a significant increase in credit risk.

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" (over 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 2020 and 2019 of refinancing, refinanced and restructured operations:

(Expressed in thousands of euros)

2020 Financial year

	TOTAL							Of which: with defaults/doubtful						
	Without collateral security		With collateral security					Without collateral security		With collateral security				
					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	Accumulated impairment value	Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities	Accumulated impairment value
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Bodies	-	-	1	6,460	6,460	-	(3,230)	-	-	1	6,460	6,460	-	(3,230)
Other financial companies and individual entrepreneurs (financial business))	4	29	3	380	380	-	(27)	3	16	3	380	380	-	(20)
Non-Financial institutions and individual entrepreneurs (non-financial business)	826	56,094	471	137,924	77,186	603	(103,867)	507	22,221	343	114,423	57,066	463	(81,643)
Of which: financing for construction and development (including land)	3	602	38	21,088	16,883	-	(13,705)	3	602	28	12,255	10,798	-	(9,021)
Other homes	919	8,287	1,120	109,490	96,472	-	(28,199)	375	4,334	653	67,877	58,429	-	(23,573)
TOTAL	**1,749**	**64,410**	**1,595**	**254,254**	**180,498**	**603**	**(135,323)**	**885**	**26,571**	**1,000**	**189,140**	**122,335**	**463**	**(108,466)**
ADDITIONAL INFORMATION														
Financing classified as Non-current assets and disposal groups classified as held for sale.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2019 Financial year

	TOTAL							Of which: with defaults/doubtful						
	Without collateral security		With collateral security					Without collateral security		With collateral security				
					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	Accumulated impairment value	Number of operations	Gross book value	Number of operations	Gross book value	Real estate collateral	Other collateral securities	Accumulated impairment value
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.	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Below is the breakdown as at 31 December 2020 and 2019 of the gross amounts of operations classified as doubtful during the year subsequent to their refinancing or restructuring:

(Expressed in thousands of euros)

	2020		
	Gross amount		
	Full property mortgage guarantee	Other collateral securities	Without collateral security
Government Bodies	-	-	-
Other legal persons and individual entrepreneurs	9,629	-	2,997
Of which: Financing for construction and development	*4,266*	-	*2,696*
Other physical persons	5,363	-	301

	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

The value of guarantees received to ensure payment of refinancing and restructuring operations, distinguishing between collateral guarantees and other guarantees as at 31 December 2020 and 2019 is as follows:

Value of guarantees received – Refinancing	2020	2019
Value of security interests	429,222	518,027
Of which: doubtful risks guarantees	259,562	377,170
Value of other guarantees	37,292	44,309
Of which: doubtful risks guarantees	16,688	20,481
Total value of guarantees received	**466,514**	**562,336**

The detailed movement of refinancing and restructuring operations, net of the associated provisions, during 2020 and 2019 is as follows:

	2020	2019
Opening balance	**227,968**	**275,081**
(+)/(-) Incoming / Outgoing refinancing and restructuring within the period	(9,043)	(32,844)
Pro-memoria: impact recorded in profit and loss account of the period	*(7,076)*	*(29,665)*
(-) Debt repayments	(22,805)	(25,306)
(-) Foreclosures	(2,265)	(2,036)
(-) Balance sheet derecognition (reclassification to write-offs)	(1)	(3)
(+)/(-) Other variations	(10,513)	13,076
Balance at year end	**183,341**	**227,968**

c) Measures adopted in relation to the COVID-19 crisis

As a result of the crisis caused by COVID-19 (Note 13.a), the government approved various measures in 2020 to mitigate the economic and financial impact of the pandemic. These measures aim to support businesses and individuals that are particularly affected by the pandemic in order to sustain economic activity with a view to a future economic recovery. The main measures with an impact on these annual accounts are as follows:

- Approval of public support measures in the form of guarantees to cover the renewal of loans and new financing granted by credit institutions to companies to meet working capital or liquidity needs, including those arising from maturing financial or tax obligations.

- Establishment of a moratorium, for a period of time, on the payment of obligations arising from financing granted to economically vulnerable individuals belonging to sectors particularly affected by the fall in activity resulting from the pandemic.

In addition, the Laboral Kutxa Group has launched a moratorium programme to complement the one approved by the Government, aimed at mitigating the impact of the economic crisis on certain groups excluded from the Government's measures, as well as extending the moratorium periods for borrowers who were able to take advantage of the Government's programme.

(Expressed in thousands of euros)

c.1) Moratoriums granted

The gross amount of transactions for which customers have requested some form of payment moratorium, whether under legal measures, private agreements or both, is shown below, detailing those transactions entered into up to 31 December 2020, as well as a breakdown of the residual maturity of those granted and still outstanding at that date:

	Number of customers	Thousands of Euros							
		Gross amount							
		Total	Of which legal moratorium	Of which: expired	Residual expiry of the moratorium				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratoriums have been requested	1,149	98,228							
Loans and advances subject to moratorium (granted)	954	82,215	57,112	54,646	21,597	3,631	2,109	232	-
of which Homes		77,658	52,555	54,646	17,758	3,631	1,392	232	-
of which Secured by residential real estate		70,805	47,535	49,823	16,125	3,352	1,283	222	-

(Expressed in thousands of euros)

The gross amount of transactions with some form of moratorium on payments, whether granted under legal measures, private agreements or both, that have been entered into and are still outstanding as at 31 December 2020 is shown below:

	Thousands of Euros														
	Gross Amount							Cumulative impairment, cumulative changes in fair value arising from credit risk							Gross amount
		Normal			Doubtful				Normal			Doubtful			
	Total	Total Normal	Of which: exposures with refinancing measures	Of which: instruments with significant increase in risk but not impaired (Stage 2).	Total Doubtful	Of which: exposures with refinancing measures	Of which: unlikely to pay but not in default or in default <= 90 days	Total	Total Normal	Of which: exposures with refinancing measures	Of which: instruments with significant increase in risk but not impaired (Stage 2).	Total Doubtful	Of which: exposures with refinancing measures	Of which: unlikely to pay but not in default or in default <= 90 days	Entries to doubtful
Loans and advances subject to moratorium	27,570	25,082	20,560	18,442	2,488	1,984	1,365	(1,643)	(1,280)	(1,210)	(1,219)	(363)	(203)	(236)	665
of which Homes	23,012	20,998	20,560	18,442	2,014	1,984	1,217	(1,460)	(1,245)	(1,210)	(1,219)	(215)	(203)	(88)	601
of which Secured by residential real estate	20,982	19,078	18,848	16,835	1,904	1,904	1,183	(761)	(601)	(601)	(595)	(160)	(160)	(75)	585

(Expressed in thousands of euros)

As indicated above, the operations shown in the tables above have been carried out in accordance with the provisions of Royal Decree-Laws 8/2020 and 11/2020, as well as with the guidelines and private agreements between the Bank and its customers.

With regard to the legal moratorium, this entails the suspension of the mortgage debt for a period of three months and the consequent non-application during the period of validity of the moratorium of the early maturity clause that, where applicable, was included in the mortgage loan contract. The application deadline for these moratoriums is 30 September 2020, without prejudice to the approval of new measures by the Spanish Government. During the period of validity of the moratorium, the creditor entity cannot demand payment of the mortgage instalment, nor of any of the items included in it (amortisation of the capital or payment of interest), either in full or a percentage. The moratorium may have retroactive effect for unpaid instalments due on or after 18 March 2020. As at 31 December 2020, the Entity has formalised legal moratorium measures affecting 53 transactions, with an outstanding risk exposure of 4,919 thousand euros.

The private moratorium is applicable both to borrowers who have benefited from the legal moratorium described above and to borrowers who have not benefited from the legal moratorium and whose financial situation has deteriorated as a result of COVID-19. This private moratorium, applied exclusively by Laboral Kutxa, allows the suspension of up to 6 instalments of capital of the operation, which may be extended in the case of mortgage loans by up to 12 instalments in certain cases (in the calculation of the suspended instalments, the possible deferral that may have occurred as a result of the application of legal moratoriums must be taken into account). As at 31 December 2020, the Entity has formalised private moratorium measures affecting 503 transactions, with an outstanding risk exposure of 22,651 thousand euros.

The effect of the changes in contractual conditions resulting from the measures described in this note did not have a significant impact on the consolidated profit and loss account for the year.

c.2) Publicly guaranteed operations

In addition, the Entity has entered into new operations backed by public assistance measures introduced in response to the COVID-19 crisis. The table below shows information as at 31 December 2020 for these operations:

	Thousands of Euros			
	Gross amount		Maximum amount of the guarantee that can be considered	Gross amount in doubt
	Total	of which: refinancing	Public guarantees received	
Newly granted operations backed by public assistance measures	650,967	359	558,213	3,897
of which Self-employed	51,075	-	-	168
of which Secured by residential real estate	-	-	-	-
of which Non-financial companies	597,320	-	509,632	3,729
of which SMEs	513,074	-	-	2,977
of which Secured by commercial real estate	-	-	-	-

The public assistance measures presented in the table above include:

a) Guarantees from the ICO COVID-19 credit facility, provided for in article 29 of Royal Decree-Law 8/2020, of 17 March, on extraordinary urgent measures, which establishes that the Ministry of Economic Affairs and Digital Transformation will grant up to 100,000 million euros in guarantees for financing, provided by credit institutions to companies and the self-employed affected by the health crisis to meet their needs arising from invoice management, working capital requirements, financial or tax obligations, the payment of employees' salaries or other liquidity needs to support them in maintaining economic activity. Companies and the self-employed have access to these guarantees via their financial institutions, through the formalisation of new financing operations or the renewal of existing ones, with the ICO guaranteeing a percentage of between 70% and 80%, depending on the characteristics of the company or self-employed person concerned. The Entity pays the ICO an annual fee on the amounts guaranteed. The number of operations approved by the Entity for the self-employed, SMEs and other companies amounted to 4,989, with a total amount of 419,205 thousand euros and an ICO guarantee of 326,607 thousand euros.

b) In addition, various regional governments, mainly the Basque Government and the Government of Navarre, have also developed extraordinary urgent measures for credit facilities through agreements with Elkargi, S.G.R. (in the case of the Basque Government) and Sonagar (in the case of the Government of Navarre) aimed at meeting the liquidity needs of SMEs and the self-employed to enable them to maintain their economic activity. The number of operations approved by the Entity for the self-employed, SMEs and other companies for this type of guarantee amounts to 3,288, for an amount of 231,762 thousand euros, and a guarantee amount of 231,606 thousand euros.

With regard to the accounting treatment of these transactions, the Parent Company considers the expected cash flows from the possible execution of the guarantee in the calculation of the expected loss on the transaction.

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 Parent 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 2020 reached very high levels in the Parent Entity, well above the limit stipulated by the regulator for 1 January 2018.

Specifically, at year-end 2020, the Parent Entity has:

- An LCR of 466%.

- Liquid discountable (and available) assets in the European Central Bank (ECB) of 5,813 million euros (following the application of haircuts), which allow unexpected contingencies to be addressed. Of this amount, 1,374 million euros are available as an ECB credit facility and 4,439 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 2020 the Parent Entity obtained an amount of 1,680 million euros in the framework of the ECB's TLTRO III 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 679 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 2,623.7 million euros, of which 212.7 correspond to the cash ratio.

- A Loan to Deposits Ratio standing at 64%.

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

    - With an amount of 2,305 million euros, which represents 8% 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 625 million euros and money taken (TLTRO III) from the ECB amounting to 1,680 million euros (Note 32). 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 93 million euros, and 5 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 due in May 2021, and the ECB bond is due to mature in March 2023.

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

	2020	
Financing structure	**Million €**	**%**
Customer deposits	21,152	77.74
Mortgage bonds (1)	625	2.30
ECB taken	1,680	6.17
Securitisations (1)	93	0.34
ICO and EIB financing	5	0.02
Total Assets	27,207	

(1) Treasury stock is excluded

(Expressed in thousands of euros)

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	**2021**	**2022**	**2023**	**> 2023**
Mortgage Bonds	625	-	-	-
Territorial Bonds	-	-	-	-
Senior Debt	-	-	-	-
Issues guaranteed by the State	-	-	-	-
Subordinate, Preferential and convertible	-	-	-	-
Securitisations sold to third parties	12	11	10	60
ECB taken	-	-	1,680	-
ICO and EIB financing	1	1	-	3
	638	12	1,690	63

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 €	
	31.12.2020	
	Drawn	**Available**
Net Liquid assets (2)	1,680	6,493

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

Issue Capacity	**Million €**
Issue capacity of Mortgage Bonds	5,559
Issue capacity of Territorial Bonds	269
Available in issues guaranteed by the State	-
	5,828

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):

2020

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	25,296	2,421	187	330	882	1,069	7,598	12,809
TOTAL outflows	(24,779)	(21,146)	(1,191)	(651)	(05)	(14)	(1,737)	(35)
Net	517	(18,725)	(1,004)	(321)	877	1,055	5,861	12,774

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

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.

(Expressed in thousands of euros)

	Million €								
	Balance on balance sheet as at 31/12/2020	**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	27,564	5,618	2,797	9,113	893	1,913	2,255	720	4,255
Money market	2,917	2,917	-	-	-	-	-	-	-
Credit market	14,947	2,350	2,793	5,808	562	484	375	286	2,289
Securities market	9,700	351	4	3,305	331	1,429	1,880	434	1,966
Sensitive liabilities	24,731	8,396	2,225	*5,409*	*55*	*(6)*	*16*	*28*	*8,608*
Wholesale market	2,882	591	628	1,683	-	(20)	-	-	-
Other creditors	21,849	7,805	1,597	3,726	55	14	16	28	8,608
Simple GAP		(2,778)	572	3,704	838	1,919	2,239	692	(4,353)
% of total liabilities		(10%)	2%	13%	3%	7%	8%	3%	(16%)
Cumulative GAP		(2,778)	(2,206)	1,498	2,336	4,255	6,494	7,186	2,833
% of total liabilities		(10%)	(8%)	5%	8%	15%	24%	26%	10%

	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	5,756	454	362	285	222	1,683
Securities market	7,888	430	15	1,619	1,127	314	785	1,694	1,904
Sensitive liabilities	21,862	7,709	2,027	*4,190*	*454*	*13*	*14*	*28*	*7,427*
Wholesale market	2,099	671	528	505	399	(4)	-	-	-
Other creditors	19,763	7,038	1,499	3,685	55	17	14	28	7,427
Simple GAP		(2,825)	893	3,185	1,127	663	1,056	1,888	(3,840)
% of total liabilities		(12%)	4%	13%	5%	3%	4%	8%	(16%)
Cumulative GAP		(2,825)	(1,932)	1,253	2,380	3,043	4,099	5,987	2,147
% of total liabilities		(12%)	(8%)	5%	10%	13%	17%	25%	9%

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 5,93% 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 63.4 million euros reduction in the economic value of the Parent Entity, that is, around 3.59% of its equity. Furthermore, an increase of the same magnitude would increase the Parent Entity's economic value by 80,7 million euros, 4,58% of its Equity. The criteria used to calculate the Equity Value are the same as those previously mentioned in the interest rate gap section. Unified technical standards are currently being developed by the EBA for all European banks. The expected publication date for these standards is March 2022.

18. Other market risks

2020 will go down in history as the year of the Coronavirus pandemic. Apart from the consequences that the pandemic is having in terms of human lives, this health crisis has also had far-reaching impacts on the economic, political and social environments and, of course, on the financial markets.

The year began with the same dynamics as at the end of the previous year: economic slowdown and good performance of the risk markets given the decisive intervention of the main central banks injecting monetary stimuli. At the end of February, the COVID-19 crisis erupted globally and, after a period of initial confusion, a series of measures were adopted by the main countries that had a considerable impact on the economies and markets, the most important of which, for the purposes of this note, were the home confinements of the population on the one hand, and the fiscal and monetary stimuli applied to counteract the effects of the pandemic on the other.

The immediate consequence of the home confinements was an overall drop in economic activity and a near-total paralysis of activity in certain sectors. Both the fiscal stimulus in the form of spending and aid for corporate financing, implemented to mitigate the effects of the crisis (which, in the case of the US, even materialised in part in the form of a cheque given to citizens to sustain household consumption) and the measures implemented by central banks in terms of balance sheet increases through new asset purchase programmes (QE), contributed to the economic crisis not entering a self-destructive spiral and reached a floor during the second quarter.

In terms of macroeconomic magnitudes, there were generalised falls in GDP in the first half of the year of between -10% and -30% in annualised terms, with recoveries of a similar magnitude in the second half, albeit from a lower baseline, and, therefore, there is still some way to go to recover pre-crisis GDP levels in many countries, the most notable exception being the case of China, which, paradoxically, despite being the country where the health crisis emerged, was the first to react and managed to end the year with positive growth of more than 2%. On the negative side, the peripheral European countries (Spain -9.1%, Italy -6.6%) and the UK (close to -9%) are the ones with the highest negative growth rates in 2020 among the main developed countries. Countries such as the US ended the year with -2.5%, Japan -5.7%, Germany -3.9% and France -5%. The economic recession triggered by the COVID-19 crisis has been both the most intense in modern history and the shortest.

On the other hand, fiscal deficits have soared in all countries, reaching double-digit records in many of them, while debt-to-GDP ratios have reached worrying levels in countries such as Italy (around 160%) and Spain and the US (with levels above 120%).

With regard to central bank intervention, this period will also be marked by the unprecedented scale of intervention. In this regard, the FED balance sheet has reached 35% of GDP, having increased by more than 15 percentage points as a consequence of the measures adopted in response to the crisis, while the ECB balance sheet reached 62% of the eurozone's GDP following the implementation of an emergency asset purchase programme for the duration of the effects of the pandemic, a programme that has a purchase limit of 1.85 trillion euros and can be used until March 2022 and which is in addition to the ordinary purchase programme.

With regard to financial markets, the performance of these markets throughout the year has been strongly influenced by the unfolding of the pandemic, its economic impact and the measures adopted by governments and central banks. After the outbreak of the crisis, the risk asset markets recorded significant declines, with the main stock market indices showing annual losses of between 25% and 35% in mid-March, remaining around the minimum for barely two weeks and then beginning to recover, albeit in a volatile environment. By mid-summer most indices had already recovered two thirds of their losses and some of them even managed to reach new all-time highs, such as the US indices, where the weight of technology companies (by far the best performing sector in the crisis) was significant. This was followed by a period of range-bound oscillation in the months leading up to the USA elections. After the elections, once the associated uncertainty had been removed and coinciding shortly after the announcement of the first vaccine against COVID-19, the stock markets entered a frenetic upward phase until the end of the year, which led to certain indices with revaluations that were hard to believe for the year that had transpired. It was both the shortest bear market in history and the most intense in both its bear and bull phases. Other risky assets followed a pattern very similar to that of the stock markets.

At the end of the year, the main stock market indices in which the technology sector had a significant influence showed high returns, with the S&P500 registering +16.26% and the Nasdaq +43.64%, the MSCI World +14.06% and the MSCI Emerging Markets +15.84%. On the negative side, the European indices, weighed down by the sectoral composition of their main indices, were unable to recover all their losses. The Eurostoxx50 closed the year with -5.14%, the IBEX35 with -15.45% and the UK FTSE 100 with -14.34% despite the Brexit deal reached at the end of the year.

In corporate bonds, all indices recorded positive returns except for emerging market indices, which were penalised by negative currency movements. Thus the Barclays US Investment Grade indices returned +9.89%, the High Yield +7.11% while in Europe, the Barclays Investment Grade index returned +2.77% and the High Yield +2.29%. By contrast, the Barclays Emerging Market Index in foreign currency was -3.52%.

Gains were also broad-based in government bond markets as a result of the support provided by the continued intervention of central banks through their purchase programmes. Among the European markets that performed best were the peripheral countries, which, despite the fact that in the first months of the pandemic they suffered selling pressure with the consequent widening of spreads, the successive extensions of the emergency purchase programme established by the ECB and the aggressive interventions in its application meant that spreads closed the year at levels close to historic lows. Thus, the Barclays sovereign indices for Italy and Spain closed the year with returns of +7.93% and 4.35% respectively, while the US index closed with +8%.

In these circumstances, the impact of the COVID-19 crisis on the Entity's portfolios has been limited given the limited exposure to risky assets in our investment portfolios (private fixed income and equities). The most significant impact was on debt portfolios. On the one hand, the Entity took advantage of the widening of spreads on Treasury debt in the first months of the pandemic to make purchases in the Financial Assets at Amortised Cost portfolio at significantly better yield levels than those prevailing before the crisis and, in the summer months, the Entity decided to sell the position it had in Italian debt in the Financial Assets at

Fair Value with changes in Other Comprehensive Income portfolio. Also, in June it was decided to resort to the TLTRO under the new conditions applied by the ECB. Lastly, the Financial Assets Held for Trading portfolio recorded losses during the first months of the pandemic in line with the trend in market valuations, losses that were eventually recovered at year-end.

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 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 Entity has a network of 58 coordinators and 28 validators to perform the functions required by the system (self-assessments and action plans).

On a quantitative level, the 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. In 2020, the COVID-19 event type has been registered, in compliance with the guidelines issued by the European Banking Authority (EBA\REP\2020\19 and EBA\REP\2020\39).

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.

At year-end 2020 the full impact of applying the new PER - 2020 life expectancy tables published in December has been recorded.

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 2020 and 2019, 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 2020 and 2019, were as follows:

(Expressed in thousands of euros)

2020

	Total (book value) (a)	Spain	Rest of the EU	America	Rest of the world
Central Banks and credit institutions	3,487,356	2,877,244	153,097	15,110	441,905
Government Bodies	9,639,816	9,509,109	130,707	-	-
– Central Government	8,836,985	8,706,278	130,707	-	-
– Other public administrations	802,831	802,831	-	-	-
Other financial companies and individual entrepreneurs	188,361	122,702	41,816	1,135	22,708
Non-financial companies and individual entrepreneurs	3,100,942	3,002,058	63,365	22,811	12,708
– Construction and real estate development	61,412	61,412	-	-	-
– Public works construction	112,861	112,861	-	-	-
– Other purposes	2,926,669	2,827,785	63,365	22,811	12,708
Large companies	618,283	524,730	59,571	21,867	12,115
SMEs and individual entrepreneurs	2,308,386	2,303,055	3,794	944	593
Other homes	10,783,505	10,765,620	11,592	2,986	3,307
– Homes	10,030,432	10,013,186	11,209	2,764	3,273
– Consumer	413,680	413,333	232	82	33
– Other purposes	339,393	339,101	151	140	1
TOTAL	27,199,980	26,276,733	400,577	42,042	480,628

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

(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)

2020

Business in Spain	Total (book value) (a)	REGIONAL GOVERNMENTS OF SPAIN Basque Country	Navarra	Madrid	Others
Central Banks and credit institutions	2,877,243	57,686	-	2,681,885	137,672
Government Bodies	9,509,109	471,906	5,559	258,769	8,772,875
– Central Government	8,706,278	-	-	-	8,706,278
– Other public administrations	802,831	471,906	5,559	258,769	66,597
Other financial companies and individual entrepreneurs	122,702	56,512	1,454	53,358	11,378
Non-financial companies and individual entrepreneurs	3,002,058	1,855,716	299,325	223,383	623,634
– Construction and real estate development	61,412	42,784	1,922	3,882	12,824
– Public works construction	112,861	77,578	7,311	15,458	12,514
– Other purposes	2,827,785	1,735,354	290,092	204,043	598,296
Large companies	524,730	344,665	45,377	62,822	71,866
SMEs and individual entrepreneurs	2,303,055	1,390,689	244,715	141,221	526,430
Other homes	10,765,621	6,232,409	1,230,109	523,825	2,779,278
– Homes	10,013,187	5,711,685	1,147,349	509,438	2,644,715
– Consumer	413,333	256,677	50,777	10,547	95,332
– Other purposes	339,101	264,047	31,983	3,840	39,231
TOTAL	26,276,733	8,674,229	1,536,447	3,741,220	12,324,837

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

(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 2020 and 2019 is as follows:

	2020	2019
Cash	77,841	77,325
Cash balances at central banks	2,623,498	1,624,987
Other on demand deposits	47,727	43,370
	2,749,066	1,745,682
By currency:		
In Euro	2,735,143	1,737,105
In US dollars	7,553	7,063
Swiss francs	132	145
Pounds sterling	1,198	688
Japanese yen	4,821	538
Others	219	143
	2,749,066	1,745,682

The average rate of interest per annum in 2020 and 2019 on cash balances at central banks and other demand deposits amounted to -0,04% and -0,22%, 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 2020 and 2019, respectively, calculated on the basis of their qualifying liabilities as determined in said Regulation. As at 31 December 2020 and 2019, 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 Entity 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 2020 and 2019 is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
Derivatives	1,975	2,173	994	1,215
Equity instruments	485	576	-	-
Debt securities	21,595	44,317	-	-
	24,055	47,066	994	1,215

During 2020, "Financial assets held for trading" fell by around 22 million euros, due mainly to sales of debt issued by the State, as well as the debt letter issued by the Italian Treasury. 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.

The fair value of the items included in Financial assets and liabilities held for trading, as at 31 December 2020 and 2019, as well as the measurement techniques applied, are set out in Note 41.

The effect on the consolidated profit and loss accounts for the years ended 31 December 2020 and 2019 of changes in the fair value of items included in Financial assets and liabilities held for trading is as follows (Note 51):

(Expressed in thousands of euros)

	Profit		Loss	
	2020	2019	2020	2019
Derivatives	15,110	14,840	16,458	20,601
Equity instruments	140	575	230	485
Debt securities	13,158	47,898	12,725	41,455
	28,408	63,313	29,413	62,541

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 2020 and 2019 resulting from changes in fair value of the financial assets and liabilities held for trading is as follows:

	Profit		Loss	
	2020	2019	2020	2019
Items whose fair value is:				
Determined by reference to quoted prices (Level 1)	14,229	49,278	13,766	43,252
Estimated through a measurement technique based on:				
Market-based data (Level 2)	14,179	14,035	15,647	19,289
Non-market-based data (Level 3)	-	-	-	-
	28,408	63,313	29,413	62,541

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 2020 and 2019 is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
By currency:				
In Euro	24,055	47,028	994	1,177
In US dollars	-	38	-	38
	24,055	47,066	994	1,215
By maturity:				
Up to 1 month	179	313	64	154
Between 1 month and 3 months	483	260	84	92
Between 3 months and 1 year	537	190	105	234
Between 1 year and 5 years	22,371	21,968	741	432
More than 5 years	-	23,759	-	303
Maturity not determined	485	576	-	-
	24,055	47,066	994	1,215

(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:

	2020		2019	
	Amount	%	Amount	%
By geographical area:				
Spain	23,786	98.88%	38,167	81.09%
Other European Union countries	269	1.12%	8,899	18.91%
Rest of the world	-	-	-	-
	24,055	100.00%	47,066	100.00%
By counter-party categories:				
Credit institutions	1,313	5.46%	2,029	4.31%
Resident Public Administrations	21,609	89.83%	35,832	76.13%
Other resident sectors	1,133	4.71%	686	1.46%
Other non-resident sectors	-	-	8,519	18.10%
	24,055	100.00%	47,066	100.00%
By instrument types:				
Listed bonds and debentures	21,595	89.77%	44,317	94.16%
Other fixed-income securities	-	-	-	-
Derivatives not traded on organised markets	1,975	8.21%	2,173	4.62%
Listed shares	485	2.02%	576	1.22%
	24,055	100.00%	47,066	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:

	2020		2019	
	Amount	%	Amount	%
A-rated risks	22,181	92.21%	36,838	78.27%
B-rated risks	242	1.01%	8,932	18.98%
Amounts not assigned	1,632	6.78%	1,296	2.75%
	24,055	100.00%	47,066	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 2020 and 2019 is as follows:

	2020	2019
Public Debt Other European Union Countries	-	8,519
Spanish/Regional Public Debt	21,595	34,788
Official Credit Institute	-	-
Other fixed-income securities	-	1,010
	21,595	44,317

The average annual interest rate on the debt securities in the banking business in 2020 and 2019 was 0.886% and 0.997%, 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 2020 and 2019 is as follows:

	2020	2019
Holdings in Spanish entities	-	-
Holdings in foreign entities	-	-
Investment Fund Units	485	576
Other holdings	-	-
	485	576

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 2020 and 2019 is as follows:

	2020		
	Fair value	Fair value	
		Assets	Liabilities
Purchase-sale of unmatured currencies			
Purchases	9,486	220	223
Sales	52,682	960	30
Financial and interest rate forwards			
Purchased	-	-	-
Sold	1,065	-	-
Securities options			
Purchased	28,530	259	-
Sold	939,589	-	-
Currency options			
Purchased	-	-	-
Sold	-	-	-
Interest rate options			
Purchased	19,838	299	-
Sold	1,644	-	-
Other interest rate transactions			
FRAs	-	-	-
Financial swaps	21,187	237	187
Call Money Swaps (CMS)	-	-	
Other term transactions			
Purchased	-	-	-
Sold	19,777	-	554
		1,975	994

(Expressed in thousands of euros)

	2019		
	Fair 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

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, pension funds and voluntary social welfare entities (all managed by companies belonging to the Kutxa Laboral Group (see Annex I)) are recorded as options issued on securities. The nominal value of these transactions as at 31 December 2020 and 2019 amounted to 940 and 1,309 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 2020 and 2019 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 2020 and 2019 is as follows:

	2020	2019
Equity instruments	84,186	88,990
Holdings in Spanish entities	18,374	21,006
Holdings in foreign entities	3,079	3,600
Investment Fund Units	-	-
Holdings in Venture Capital Companies	59,296	60,947
Securities related to the Development and Education Fund	3,437	3,437
Debt securities	707,702	1,186,249
Spanish Public Debt	428,257	427,438
Treasury Bills	-	-
Government bonds and debentures	428,257	427,438
Other recorded debts	-	-
Other Spanish Government debt	24,975	17,726
Foreign public debt	49,312	605,588
Issued by credit institutions	115,373	88,832
Residents	35,220	24,612
Non-residents	80,153	64,220
Other fixed-income securities	89,785	46,665
Issued by other residents	25,124	19,342
Issued by other non-residents	64,661	27,323
Doubtful assets	18,517	17,884
Value adjustments due to asset impairment	(18,517)	(17,884)
Micro-hedge transactions	-	-
	791,888	1,275,239

As at 31 December 2020 and 2019 most of the references in this portfolio were classified as Stage 1, with Stage 3 being 18 million euros in both years.

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 2020 and 2019, 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 2020 and 2019 arising from changes in the fair value of the items included under " Financial Assets at Fair Value through Other Comprehensive Income".

(Expressed in thousands of euros)

The amount derecognised from "Other accumulated comprehensive income" in equity in the years ended 31 December 2020 and 2019 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 27,568 thousand euros and 505 thousand euros, respectively, both net of tax effect (see Note 39).

In addition, in 2020 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 (1,749) thousand euros (1,198 thousand euros in 2019).

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 2020 and 2019 is as follows:

	2020	2019
By currency:		
In Euro	773,011	1,252,738
In US dollars	18,877	22,501
Pounds sterling	-	-
Swiss francs	-	-
Others	-	-
	791,888	1,275,239
By maturity:		
Up to 1 month	4,403	3,284
Between 1 month and 3 months	9,118	3,770
Between 3 months and 1 year	54,582	45,679
Between 1 year and 5 years	241,977	822,400
More than 5 years	397,403	310,370
Maturity not determined	102,922	107,620
	-	
Value adjustments due to asset impairment	(18,517)	(17,884)
	791,888	1,275,239

Movements in 2020 and 2019 under "Financial assets at fair value through other comprehensive income" are set out below:

	2020	2019
Balance at the beginning of the year	1,275,239	1,136,015
Net additions/removals	(449,793)	85,185
Movements due to changes in fair value	(34,189)	54,199
Impairment losses (net) charged to profit and loss (Note 62)	631	(160)
Others	-	-
Balance at the close of the year	791,888	1,275,239

The average annual interest rate on the debt securities in the banking business in 2020 and 2019 was 0.266% and 0.431%, respectively. The average annual yield in 2020 and 2019 on debt securities in the insurance business was 2.29% in both years.

The Group also holds other subordinated debt instruments amounting to 4,336 thousand euros in the portfolio of financial assets at fair value with changes in other comprehensive income as at 31 December 2020 (3,144 thousand euros as at 31 December 2019).

As at 31 December 2020 and 2019, 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 2020 financial year, the Entity sold fixed income issues for a nominal amount of 370,000 thousand euros, materialising gross capital gains for a value of 36,752 thousand euros, which were recorded under the heading "Gains or (-) losses upon derecognition of financial assets and liabilities not valued at fair value through income, net" in the profit and loss account for the 2020 financial year (Note 50). At the same time, the Entity unwound the cash flow hedge associated with these issues, recording a gross loss of 26,660 thousand euros, which has been recognised under "Gains and (-) losses arising from hedge accounting, net" in the profit and loss account for the year 2020 (Note 53). As at 31 December 2019, the fair value of this hedge amounted to 20,845 thousand euros.

As at 31 December 2020 and 2019, the Parent Company held a fair value hedge on certain fixed income issues, included in the portfolio of "Financial assets at fair value with changes in other comprehensive income" for a nominal amount of 58,000 and 50,000 thousand euros, respectively. This hedging was performed by contracting OTC financial swaps on interest rates with Credit Entities and their fair value as at 31 December 2020 and 2019, amounted to (8,393) thousand euros and (5,279) thousand euros, respectively.

(Expressed in thousands of euros)

a) Credit risk

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

	2020		2019	
	Amount	**%**	**Amount**	**%**
Spain	531,065	73.13%	507,001	42.10%
Other European Union countries	178,353	24.56%	682,208	56.66%
Rest of Europe	-	-	-	-
Rest of the world	16,801	2.31%	14,924	1.24%
	726,219	100.00%	1,204,133	100.00%
Value adjustments due to asset impairment	(18,517)		(17,884)	
	707,702		1,186,249	

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

	2020		2019	
	Amount	**%**	**Amount**	**%**
A-Rated Risks	513,454	72.55%	514,692	43.38%
B-Rated Risks	190,936	26.98%	668,516	56.36%
C-Rated Risks	-	-	-	-
Non-rated doubtful assets	-	-	-	-
Amounts not assigned	3,312	0.47%	3,041	0.26%
	707,702	100.00%	1,186,249	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 2020 and 2019 is as follows (see Note 62):

	2020	**2019**
Debt securities	631	(160)
Equity instruments	-	-
	631	(160)
Allocations charged to P&L		
Determined individually	632	315
Determined collectively	-	-
Recovery of allocations credited to P&L	-	(62)
Recovery of write-offs with credit to P&L	(1)	(413)
	631	(160)

(Expressed in thousands of euros)

The changes in 2020 and 2019 in the asset impairment losses recognised under "Financial assets at fair value through other comprehensive income - Debt securities" were as follows:

	2020	2019
Balance at the beginning of the year	17,884	17,632
Net allocations/(recoveries) charged/(credited) to P&L	632	252
Transfer to write-offs against set-up funds	-	-
Other movements	1	-
	18,517	17,884

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 2020 and 2019 is as follows

	2020	2019
By manner of determination:		
Determined individually	18,517	17,884
Determined collectively	-	-
	18,517	17,884

25. Financial assets at amortised cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Debt securities	8,232,315	6,412,588
Loans and advances	14,983,347	14,443,419
Credit institutions	524,640	470,358
Customers	14,458,707	13,973,061
	23,215,662	20,856,007

(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 2020 and 2019 is as follows:

	2020	2019
By currency:		
In Euro	23,348,732	20,941,638
In US dollars	68,741	80,181
Pounds sterling	5	86
In Japanese yen	94	115
Swiss francs	34	50
Other	-	-
	-	
Valuation adjustments	(201,944)	(166,063)
	23,215,662	20,856,007
By maturity:		
On demand	219,915	291,211
Up to 1 month	2,554,291	245,432
Between 1 month and 3 months	30,172	60,747
Between 3 months and 1 year	1,092,429	483,276
Between 1 year and 5 years	3,298,898	4,388,691
More than 5 years	15,623,502	15,098,137
Maturity not determined	598,399	454,576
	-	
Valuation adjustments	(201,944)	(166,063)
	23,215,662	20,856,007

a) Debt securities

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Bonds and debentures	8,137,795	6,321,923
Spanish Public Debt	7,943,367	6,176,677
Foreign public debt	75,312	81,531
French public debt	-	-
German public debt	4,466	4,491
Dutch public debt	733	749
Belgian public debt	7,902	7,452
Portuguese public debt	62,211	68,839
Issued by credit institutions	107,894	52,500
Residents	90,050	42,047
Non-residents	17,844	10,453
Issued by Other sectors	11,222	11,215
Residents	10,182	10,175
Non-residents	1,040	1,040
Promissory notes and other fixed income issues:	3,766	2,248
Issued by Other sectors	3,766	2,248
Residents	3,766	2,248
Non-residents	-	-
Value adjustments due to asset impairment	-	(542)
Micro-hedging transactions	90,754	88,959
	8,232,315	6,412,588

As at 31 December 2020 and 2019, all the references in this portfolio were classified as Stage 1.

(Expressed in thousands of euros)

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 2020 and 2019 was as follows:

	2020	2019
By currency:		
In Euro	8,079,350	6,255,332
In US dollars	62,211	68,839
Valuation adjustments	90,754	88,417
	8,232,315	6,412,588
By maturity:		
Up to 1 year	934,489	316,953
Between 1 year and 5 years	3,088,154	2,281,620
More than 5 years	4,118,918	3,725,598
Valuation adjustments	90,754	88,417
	8,232,315	6,412,588
By ratings:		
A-Rated Risks	8,005,799	6,217,237
B-Rated Risks	135,762	104,686
Amounts not assigned	-	2,248
Valuation adjustments	90,754	88,417
	8,232,315	6,412,588

Movements in 2020 and 2019 under "Financial assets at amortised cost - Debt securities" are set out below:

	2020	2019
Balance at beginning of the year	6,412,588	5,542,505
Additions due to purchases	2,172,351	1,870,269
Amortisation	(312,562)	(1,065,735)
Micro-hedge adjustments	1,795	6,411
Receipt of interests	(91,278)	(8,484)
Interest accrual	48,879	67,622
Impairment/(Reversal of impairment) (Note 62)	542	-
Balance at the close of the year	8,232,315	6,412,588

The average annual interest rate for "Financial assets at amortised cost - Debt securities" in the banking business in 2020 and 2019 was 1.159% and 1.163%, respectively. The average annual profitability for "Financial assets at amortised cost - Debt securities" in the insurance business in 2020 and 2019 was 3.70% and 3.78%, 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 2020 and 2019, together with the valuation techniques applied, are set out in Note 41.

During 2020, the Parent Company made purchases of government debt for a nominal amount of 2,108 million euros (1,640 million euros in 2019). In addition, in 2020, issues with a nominal value of 305 million euros were redeemed at maturity (924 million in the 2019 financial year), 305 million of which corresponds to bonds issued by the government (833 million corresponding to bonds issued by the government and 91 million corresponding to issues by non-resident credit institutions in 2019).

(Expressed in thousands of euros)

As at 31 December 2020 and 2019, the Parent Company maintains a fair value hedge on Government Debt issues included in the "Financial assets at amortised cost" portfolio for a notional amount of 350,000 thousand euros and 425,000 thousand euros, respectively. This hedge was performed through contracting OTC financial swaps on interest rates with Credit Entities, the fair value of which as at 31 December 2020 and 2019, amounted to (77,862) and (88,001) thousand euros, respectively.

In addition, as at 31 December 2020 and 2019, the Parent Company held a cash flow hedge on certain fixed income issuances included in the "Financial assets at amortised cost" portfolio for a notional amount of 3,412 and 2,907 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 2020 and 2019, amounted to (169,020) thousand euros and (126,386) thousand euros, respectively.

As at 31 December 2020 and 2019, the Parent Company held fair value hedging transactions on regional public debt and public debt of other European Union states for a nominal amount of 238 million and 59 million euros, respectively, included in the "Financial assets at amortised cost" portfolio. These hedges have been achieved by contracting OTC interest rate swaps with Credit Institutions. As at 31 December 2020, the fair value of the aforementioned hedging instruments amounted to (14,020) and 1,221 thousand euros, respectively (in the 2019 financial year the fair value of these hedging instruments amounted to (7,337) and (2,225) thousand euros, respectively).

b) Loans and advances

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Loans and advances		
Credit institutions	524,640	470,358
Customers	14,458,707	13,973,061
	14,983,347	14,443,419

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 2020 and 2019 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 2020 and 2019:

(Expressed in thousands of euros)

	2020		
	Amount gross	Impairment adjustments	Amount value
Stage 1 (normal)	14,619,635	62,122	14,557,513
Stage 2 (special monitoring)	229,681	56,387	173,294
Stage 3 (doubtful)	464,359	211,820	252,539
TOTAL	**15,313,675**	**330,329**	**14,983,346**

	2019		
	Amount gross	Impairment adjustments	Amount 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**

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:

2020	2019	2018
3.15%	3.54%	4.48%

b.1) Loans and advances - Credit institutions

The breakdown of this balance sheet heading by type of instrument is as follows:

	2020	2019
Term accounts	242,128	242,128
Temporary acquisition of assets	-	-
Other accounts	282,512	228,230
Valuation adjustments		
Value adjustments due to asset impairment	-	-
Others	-	-
	524,640	470,358

Average annual interest rates on Loans and advances - credit institutions for 2020 and 2019 were -0.175% and 0.134% respectively.

As at 31 December 2020 and 2019, 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 2020 and 2019 is as follows:

	2020	2019
By type and situation:		
Spanish Government Bodies	865,448	734,491
Commercial loans	198,667	313,645
Debtors with mortgage guarantee	10,497,543	10,366,963
Debtors with other collateral	36,296	37,762
Other term loans	2,210,268	1,682,220
Finance leases	164,736	190,741
Sight debtors and miscellaneous	236,543	249,471
Reverse repurchase agreements with counter party entities	-	-
Doubtful assets	464,359	504,237
Other financial assets	77,545	148,011
Valuation adjustments	(292,698)	(254,480)
Accrued interest and acquisition premium	30,484	40,601
Value adjustments for asset impairment	(330,329)	(290,948)
Fees	(16,464)	(15,863)
Transaction Costs (Note 13.e)	23,611	11,730
	14,458,707	13,973,061
By sector of activity of borrower:		
Spanish Government Bodies	871,908	741,179
Other resident sectors:	13,791,749	13,322,721
Agriculture, farming, hunting, forestry and fisheries	83,562	73,529
Industries	812,857	700,903
Construction	262,620	243,654
Services	1,643,323	1,453,399
Commerce and hotel and catering	759,981	675,546
Transport and communications	242,086	216,235
Other services	641,256	561,618
Loans to individuals:	10,784,867	10,651,719
Home	9,774,840	9,614,672
Consumer and other	1,010,027	1,037,047
Not classified	204,520	199,517
Valuation adjustments	(292,698)	(254,480)
Other non-resident sectors	26,164	30,612
Other financial assets	61,584	133,029
Reverse repurchase agreements with counter party entities	-	-
	14,458,707	13,973,061
By geographical area:		
- Biscay	3,592,374	3,532,043
- Gipuzkoa	4,144,445	3,902,341
- Araba	1,479,484	1,444,550
- Navarra	1,508,562	1,495,143
- New network	4,026,540	3,853,464
- Not classified	-	-
Valuation adjustments	(292,698)	(254,480)
	14,458,707	13,973,061
By interest rate applied:		
Fixed interest rate	3,054,187	2,207,220
Variable interest rate linked to Euribor	11,346,973	11,582,011
Variable interest rate linked to CECA	-	-
Variable interest rate linked to IRMH	41,256	47,208
Others	308,989	391,102
Valuation adjustments	(292,698)	(254,480)
	14,458,707	13,973,061

(Expressed in thousands of euros)

During 2019, the Parent Entity acquired a loan with 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 in 2019, the 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. As at 31 December 2020 the fair value of the hedging derivative is (9,151) thousand euros ((4,023) thousand euros in 2019).

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 2020 and 2019 is as follows:

	2020	2019
By currency:		
In Euro	14,744,746	14,215,968
In US dollars	6,526	11,328
Pounds sterling	5	80
Japanese yen	93	115
Swiss francs	34	50
Others	-	-
Valuation adjustments	(292,698)	(254,480)
	14,458,706	13,973,061
By maturity:		
On demand	219,914	291,211
Up to 1 month	2,547,974	17,932
Between 1 month and 3 months	30,172	48,788
Between 3 months and 1 year	113,919	178,832
Between 1 year and 5 years	12,638	1,920,121
More than 5 years	11,504,583	11,317,361
Maturity not determined	322,204	453,296
	-	
Valuation adjustments	(292,698)	(254,480)
	14,458,706	13,973,061

As at 31 December 2020 and 2019, the Group had not recognised any subordinated loans under this heading, except for the financing granted to the asset securitisation funds "IM Caja Laboral 1, F.T.A." and "IM Caja Laboral 2, F.T.A.".

(Expressed in thousands of euros)

The changes in 2020 and 2019 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 2018	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	13,976,695	253,446	504,237	14,734,378
Concessions/(Amortisations) net	684,084	(42,454)	(32,047)	609,583
Transfers between gross balances	(38,967)	18,875	20,092	-
Transfers to non-current assets for sale	-	-	(5,786)	(5,786)
Transfer to write-offs	(2,177)	(186)	(22,137)	(24,500)
Balance at the close of 2020	14,619,635	229,681	464,359	15,313,675

As at 31 December 2020 and 2019 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 2020 and 2019 the investment outstanding and residual values by type of asset financed are as follows:

Principal	2020	2019
Capital goods	37,841	44,575
IT Equipment	886	1,000
Materials and transport vehicles	53,018	61,777
Cars	20,073	23,470
Other assets	8,975	10,253
Total furniture	120,793	141,075
Property Assets	23,600	29,194
TOTAL	144,393	170,269

Residual value	2020	2019
Capital goods	1,400	1,532
IT Equipment	39	40
Materials and transport vehicles	7,049	6,577
Cars	9,700	11,497
Other assets	376	396
Total furniture	18,564	20,042
Property Assets	4,002	4,085
TOTAL	22,566	24,127

Of these balances, a total amount of 2,223 thousand euros as at 31 December 2020 and 3,655 thousand euros as at 31 December 2019, 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 2020 and 2019 is as follows:

(Expressed in thousands of euros)

	2020	2019
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:	446,064	496,763
Mortgage assets securitised through transfer certificates		
Mortgage	446,064	496,763
Other securitised assets	-	-
	446,064	496,763

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." 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 2020 amounted to 446,064 thousand euros (496,763 thousand euros as at 31 December 2019). It is worth mentioning that the Parent Entity subscribed all securitisation bonds of the "IM Caja Laboral 2, F.T.A.". It is the Parent Company's intention to use them as collateral in Eurosystem credit operations.

Additionally, as at 31 December 2020, the Parent Entity has granted subordinated loans to the aforementioned Asset Securitisation Funds amounting to 24,586 thousand euros (25,612 thousand euros as at 31 December 2019).

(Expressed in thousands of euros)

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 2020 and 2019 (see Note 62) is as follows:

	2020	2019
Loans and advances	59,372	(11,231)
Allocations	137,802	125,907
Failed asset recovery	(4,689)	(5,433)
Other recoveries	(73,741)	(131,705)
Debt securities	(542)	-
	58,830	(11,231)
Allocations charged to P&L	137,260	125,907
Determined individually	36,106	77,991
Determined collectively	101,154	47,916
Recovery of allocations credited to P&L	(73,741)	(131,705)
Recovered suspense items	(4,689)	(5,433)
	58,830	(11,231)

The details as at 31 December 2020 and 2019 of the balance of Impairment losses on assets under "Financial assets at amortised cost - Loans and advances" were as follows:

	2020	2019
By manner of determination:		
Determined individually	151,312	161,749
Determined collectively	179,017	129,199
	330,329	290,948
By counter-party:		
Other resident sectors	329,523	289,866
Other non-resident sectors	806	1,082
	330,329	290,948

As at 31 December 2020, the balance of generic hedges included 56,387 thousand euros due to the value adjustment of the operations classified as normal risk under special surveillance amounting to 229,681 thousand euros (37,675 and 254,446 thousand euros, respectively, as at 31 December 2019).

(Expressed in thousands of euros)

The changes in 2020 and 2019 in the balance of Value adjustments due to impairment losses on assets under "Financial assets at amortised cost - Loans and advances" were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance as at 01 January 2019	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
Net provisions charged to P&L	36,679	18,712	5,619	61,010
Transfer to write-offs against set-up funds	-	-	(21,587)	(21,587)
Transfer between value adjustments	-	-	-	-
Others	92	-	(134)	(42)
Balance at the close of 2020	62,121	56,387	211,821	330,329

The Parent Company has recognised 3,051 thousand euros as at 31 December 2020 (2,857 thousand euros as at 31 December 2019) as amortisation of bad debts, which increases the balance of the heading "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortised cost" in the profit and loss account (Note 62).

In 2020 and 2019, "Other" mainly includes the reclassification of the specific hedging of certain financing that has been derecognised following the Group's foreclosure of its associated guarantee. to "Non-current assets and disposal groups classified as held for sale" in the amount of 134 thousand euros and 4,191 thousand euros, respectively (Note 34).

(Expressed in thousands of euros)

The accumulated financial income and that not recorded in the consolidated profit and loss account of the impaired financial assets as at 31 December 2020 and 2019 amounted to 58,477 thousand euros and 56,386 thousand euros, respectively.

The breakdown of the book value of impaired assets, without deducting impairment losses, is as follows:

	2020	2019
By geographical area:		
- Biscay	97,036	104,237
- Gipuzkoa	152,778	156,284
- Araba	34,920	40,043
- Navarra	47,065	53,250
- New network	132,560	150,423
- Not classified	-	-
	464,359	504,237
By counter-party:		
Spanish Government Bodies	6,460	6,688
Other resident sectors	456,779	496,844
Other non-resident sectors	1,120	705
	464,359	504,237
By type of instrument:		
Commercial loans	5,319	9,104
Loans and credits	444,181	476,071
Finance leases	4,635	6,724
Others	10,224	12,338
	464,359	504,237

The breakdown by age of the amounts due is as follows:

	2020	2019
Up to 6 months	192,727	223,616
Over 6 months without exceeding 9 months	27,153	25,536
Over 9 months without exceeding 12 months	20,762	24,493
Over 12 months without exceeding 15 months	19,776	16,820
Over 15 months without exceeding 18 months	13,144	13,040
Over 18 months without exceeding 21 months	10,822	13,034
Over 21 months	179,975	187,698
	464,359	504,237

(Expressed in thousands of euros)

A breakdown as at 31 December 2020 and 2019 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:

	2020	2019
Financial assets at amortised cost - Loans and advances - Customers	599,621	582,166
	599,621	582,166

The movement in impaired financial assets derecognised because recovery is considered to be remote, is as follows:

	2020	2019
Balance at the beginning of the year	582,166	534,630
Additions:	26,982	108,847
Value adjustment due to asset impairment and other movements	24,500	53,077
Contractually payable interest	2,482	55,720
Recoveries:	(4,689)	(5,433)
Due to collection in cash of principal	(4,689)	(5,433)
Definitive derecognitions:	(4,838)	(55,878)
For cancellation	(3,253)	(18,907)
For other items	(1,585)	(36,971)
Balance at year end	599,621	582,166

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 2020 and 2019 is as follows:

	2020	2019
Equity instruments	47,701	48,673
Holdings in collective investment institutions (*)	47,701	48,673
Debt securities	2,265	2,210
	49,966	50,883

(*) As at 31 December 2020, 2,457 thousand euros correspond to investment funds managed by the Group (2,644 thousand euros as at 31 December 2019).

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 2020 and 2019, together with the valuation techniques applied, are set out in Note 41.

(Expressed in thousands of euros)

The effect on the consolidated profit and loss account for the years ended 31 December 2020 and 2019 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	
	2020	2019	2020	2019
Equity instruments	9,419	10,829	(9,564)	(6,487)
Debt securities	56	1,601	-	(713)
	9,475	12,430	(9,564)	(7,200)

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 2020 and 2019, 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	
	2020	2019	2020	2019
Items whose fair value is:				
Determined by reference				
to quoted prices (Level 1)	7,712	7,732	(8,277)	(3,910)
Estimated through a measurement				
technique based on:				
Market-based data (Level 2)	56	298	-	-
Non-market-based data (Level 3)	1,707	4,400	(1,287)	(3,290)
	9,475	12,430	(9,564)	(7,200)

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 2020 and 2019 is broken down below by currencies and expiry:

	2020	2019
By currency:		
In Euro	41,112	41,631
In US dollars	8,854	9,252
	49,966	50,883
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	2,266	2,210
Maturity not determined	47,700	48,673
	49,966	50,883

(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:

	2020		2019	
	Amount	%	Amount	%
By geographical area:				
Spain	36,869	73.79%	37,381	73.47%
Other European Union countries	4,243	8.49%	4,250	8.35%
Rest of the world	8,854	17.72%	9,252	18.18%
	49,966	100.00%	50,883	100.00%
By counter-party categories:				
Credit institutions	2,266	4.54%	2,210	4.34%
Resident Public Administrations	-	-	-	-
Other resident sectors	34,603	69.25%	35,171	69.12%
Other non-resident sectors	13,097	26.21%	13,502	26.54%
	49,966	100.00%	50,883	100.00%
By instrument types:				
Listed bonds and debentures	2,266	4.54%	2,210	4.34%
Other fixed-income securities	-	-	-	-
Derivatives not traded on organised markets	-	-	-	-
Holdings in collective investment institutions	47,700	95.46%	48,673	95.66%
Listed shares	-	-	-	-
	49,966	100.00%	50,883	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:

	2020		2019	
	Amount	%	Amount	%
A-Rated Risks	-	-	-	-
B-Rated Risks	-	-	-	-
Amounts not assigned	49,966	100.00%	50,883	100.00%
	49,966	100.00%	50,883	100.00%

27. Derivatives - asset and liability hedge accounting

The breakdown of these items in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
Micro-hedges:	85,324	106,525	339,994	254,680
Fair value hedges	26,917	64,437	100,667	103,027
Cash flow hedges	58,407	42,088	239,327	151,653
Credit risk adjustment	-	-	816	518
	85,324	106,525	340,810	255,198

(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 2020 and 2019 are itemised below by currency and expiry:

	Assets		Liabilities	
	2020	2019	2020	2019
By currency:				
In Euro	84,103	106,525	340,810	252,973
In US dollars	1,221	-	-	2,225
	85,324	106,525	340,810	255,198
By maturity:				
Up to 1 month	-	-	-	-
Between 1 month and 3 months	21,956	-	-	-
Between 3 months and 1 year	-	18,050	5,594	2,913
Between 1 year and 5 years	46,835	85,191	93,889	134,676
More than 5 years	16,533	3,284	240,511	117,091
Undetermined expiry	-	-	816	518
	85,324	106,525	340,810	255,198

The balance of "Derivatives – hedge accounting" on the asset and liability sides of the consolidated balance sheets as at 31 December 2020 and 2019 is broken down as follows:

	2020		
	Fair value	Fair value	
		Assets	Liabilities
Other interest rate transactions			
Financial swaps	5,522,342	85,324	340,810
Other share operations			-
Financial swaps	-	-	-
		85,324	340,810

	2019		
	Fair 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

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 2020 and their variations with respect to December 2019 are described below:

Fair value hedges:

- Micro-hedges of the risk of changes in fair value due to changes in the risk-free interest rate of a number of government debt instruments individually considered and classified in the "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" portfolios. These hedges exchange the fixed rate exposure for a floating rate exposure.

  As at 31 December 2020 and 2019, said debt instruments (hedged items) had a nominal value of 705,000 and 639,117 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 2020 and 2019, these financial liabilities at amortised cost (hedged items) had a nominal value of 525,000 thousand and 1,025,000 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 changes in cash flows due to inflation on certain bonds in the "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" portfolios. The coupon on these bonds is linked to inflation in the Eurozone. The financial products used to hedge this exchange rate were swaps for a notional amount of 3,412,000 and 3,277,000 thousand euros as at 31 December 2020 and 2019, respectively. During the financial year, micro-hedges on current and future inflation were recorded for a total notional amount of 505,000 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 2020 and 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 2020 and 2019 is not significant.

(Expressed in thousands of euros)

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.

28. Investments in joint ventures and associates

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Jointly-controlled entities:		
Net value	-	-
Unquoted	-	-
Value adjustments due to asset impairment	-	-
Associates:		
Net value	315	325
Unquoted	315	325
Value adjustments due to asset impairment	-	-
	315	325

Movements during 2020 and 2019 in the balance of “Investments in joint ventures and associates” are as follows:

	2020	2019
Balance at the beginning of the year	325	2,845
Acquisitions	-	333
Disposals due to sale	-	-
Disposals due to capital redemption	-	(52)
Profit sharing (Note 47)	(9)	(9)
Provision for impairment (Note 63)	-	-
Share of valuation gains/(losses)	-	-
Distribution of dividends	-	-
Others	(1)	(2,792)
Balance at year end	315	325

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 2020 and 2019.

(Expressed in thousands of euros)

29. Assets under insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Technical provision for unconsumed premiums	11,800	11,896
Life insurance technical provisions	1,152	1,055
Technical provisions for benefits	15,416	15,462
Credits for reinsurance operations	300	276
	28,668	28,689

30. Tangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Property, plant and equipment	289,721	297,364
Own use:	273,670	279,299
IT equipment and installations	6,425	4,956
Furnishings, vehicles and other installations	30,926	32,064
Buildings	274,127	279,714
Of which: rights of use through leases	*33,442*	*30,098*
Work in progress	201	-
Others	-	-
Impairment adjustments	(38,009)	(37,435)
Leased out under operating leases	16,051	18,065
Associated with Community Projects	-	-
Furniture and installations	-	-
Properties	-	-
Investment properties	52,979	51,224
Buildings	60,676	61,718
Rural properties, land and plots	1,288	1,311
Impairment adjustments	(8,985)	(11,805)
	342,700	348,588

(Expressed in thousands of euros)

The movement in 2020 and 2019 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 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
Balance as at 01 January 2020	540,718	29,846	-	77,960	648,524
Additions	16,341	6,687	-	-	23,028
Withdrawals	(4,670)	(6,123)	-	(594)	(11,387)
Transfers	(4,413)	-	-	4,413	-
Transfers to/from non-current assets for sale	(3,062)	-	-	(5,105)	(8,167)
Balance as at 31 December 2020	544,914	30,410	-	76,674	651,998
Accumulated amortisation					
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
Balance as at 01 January 2020	223,984	11,781	-	14,931	250,696
Allocations	14,454	7,305	-	867	22,626
Withdrawals	(4,463)	(4,727)	-	(357)	(9,547)
Transfers	196	-	-	(196)	-
Transfers to/from non-current assets for sale	(936)	-	-	(534)	(1,470)
Others	-	-	-	-	-
Balance as at 31 December 2020	233,235	14,359	-	14,711	262,305
Value adjustments due to asset impairment					
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)
Balance as at 01 January 2020	(37,435)	-	-	(11,805)	(49,240)
Allocations	(574)	-	-	(60)	(634)
Withdrawals	-	-	-	-	-
Transfers	-	-	-	2,881	2,881
Others	-	-	-	-	-
Balance as at 31 December 2020	(38,009)	-	-	(8,984)	(46,993)
Net					
Balance as at 31 December 2019	**279,299**	**18,065**	**-**	**51,224**	**348,588**
Balance as at 31 December 2020	**273,670**	**16,051**	**-**	**52,979**	**342,700**

(Expressed in thousands of euros)

During the 2020 financial year, tangible assets were derecognised for a gross amount of 11,311 thousand euros, generating a profit on sale of 455 thousand euros (derecognition of 22,535 in 2019 with a profit of 745 thousand euros).

The heading Property, plant and equipment for own use on the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

	Gross	Accumulated amortisation	Impairment adjustments	Net
As at 31 December 2020				
IT equipment and installations	49,357	(42,930)	-	6,427
Furnishings, vehicles and other installations	156,384	(125,458)	-	30,926
Buildings	338,100	(63,975)	(38,009)	236,116
Work in progress	201	-	-	201
Others	872	(872)	-	-
	544,914	(233,235)	(38,009)	273,670
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

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 2020 and 2019 of Property, plant and equipment for own use does not include any amount in respect of material asset not in use.

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 2020 and 2019 amounted to approximately 146,522 thousand and 145,562 thousand euros, respectively.

The balance of Investment properties in the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

	Gross	Accumulated amortisation	Impairment adjustments	Net
As at 31 December 2020				
Buildings	75,387	(14,711)	(8,985)	51,691
Rural properties, land and plots	1,288	-		1,288
	76,675	(14,711)	(8,985)	52,979
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

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 2020 and 2019 amounted to approximately 1,927 thousand and 1,688 thousand euros, respectively.

(Expressed in thousands of euros)

The net operating income from rentals of the Group's investment property in 2020 and 2019 amounted to approximately 2,472 and 2,572 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 2020 and 2019:

	Gross	Accumulated amortisation	Net
As at 31 December 2020			
Machinery	7,653	(2,899)	4,754
Furnishings and fixtures	1,126	(584)	542
Buildings	-	-	-
IT Equipment	19,523	(9,886)	9,637
Medical equipment	830	(378)	452
Vehicles	-	-	-
Others	1,278	(612)	666
	30,410	(14,359)	16,051
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

Income from rent from Assets assigned under operating leases by the Group in 2020 and 2019 amounted to approximately 8,441 thousand and 7,357 thousand, euros, respectively. Operating expenses of all kinds corresponding to the Group's Assets assigned under operating leases in 2020 and 2019 amounted to approximately 522 thousand and 438 thousand euros, respectively (Note 56).

The Group holds rights of use through leasing, mainly of office buildings, for the performance of its business activities.

(Expressed in thousands of euros)

The detail of the rights of use under finance leases and of the changes therein in 2020 is as follows:

	Land and buildings	Others	Total
Balance as at 1 January 2019 (Note 2.2)	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
Additions	7,611	-	7,611
Withdrawals	(408)	-	(408)
Amortisation	(3,858)	-	(3,858)
Other movements	-	-	-
Balance as at 31 December 2020	33,443	-	33,443

The lease liabilities associated with the rights of use (which are recognised under "Financial liabilities at amortised cost") are detailed below:

	2020	2019
Lease Liabilities		
For current leases	33,772	30,428
For non-current leases	-	-
	33,772	30,428

Lease liabilities held by the entity as at 31 December 2020, by due dates, were the following:

	2020	2019
Up to 1 year	2,706	234
Between 1 and 5 years	4,399	4,994
More than 5 years	26,667	25,200
	33,772	30,428

(Expressed in thousands of euros)

31. Intangible assets

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Goodwill	33,425	33,425
Other intangible assets	-	-
With undefined useful life	-	-
Amortised cost	-	-
Value adjustments due to asset impairment	-	-
With defined useful life	-	-
Amortised cost	-	-
	33,425	33,425

The breakdown of the balance in Goodwill in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
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 2020 and 2019 were as follows:

	2020	2019
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 2020 and 2019.

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 2020 and 2019 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 4.55%, 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 -0.21% and 2.36%, and for technical insurance expenses have ranged between -6.29% and 15.69%.

The analysis as at 31 December 2020 has been carried out taking into consideration the current situation of economic crisis assigned due to COVID-19.

As at 31 December 2020 and 2019, sensitivity analyses were conducted on the key valuation variables, and it was concluded that there was no evidence of impairment.

(Expressed in thousands of euros)

Under current tax legislation, as at 31 December 2020 and 2019, generated goodwill is not tax deductible.

32. Tax assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
Current taxes:	559	1,242	9,128	12,595
Corporate income tax	98	682	3,980	2,902
VAT	-	-	2,491	722
Withholdings refundable/payable	461	560	-	-
Others	-	-	2,657	8,971
Deferred taxes:	293,279	283,823	56,296	66,155
Value adjustments for financial instruments	79,090	58,307	21,777	31,463
Fixed asset restatement	-	-	29,489	29,662
Opening fees	999	1,285	-	-
Tax credits	169,858	177,983	-	-
Reinvestment of fixed assets	-	-	-	-
Provision for pensions and similar obligations	8,162	6,916	-	-
Insolvency fund and other provisions	31,788	35,950	-	-
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	3,382	-	-
	293,838	285,065	65,424	78,750

As a result of current Corporate Income Tax legislation applicable to the Parent Entity and the Investee Entities, certain differences have arisen in 2020 and 2019 between accounting and tax criteria which have been recorded as Deferred tax assets and Deferred tax liabilities upon calculation and recording of the corresponding tax expense related to profit from continuing operations.

(Expressed in thousands of euros)

Movements in 2020 and 2019 in the deferred tax asset and liability balances are set out below:

	Assets		Liabilities	
	2020	2019	2020	2019
Balance at the beginning of the year	283,823	257,468	66,155	53,569
Increases / (decreases)	9,456	26,355	(9,859)	12,586
Bad-debt provision and other provisions	(4,162)	185	-	-
Reinvestment of fixed assets	-	-	-	-
Valuation adjustments for financial instruments	20,783	40,722	(9,686)	13,417
Fixed-asset revaluation	-	-	(173)	(831)
Opening fees	(286)	(321)	-	-
Tax credits	(8,125)	(8,878)	-	-
Provision for pensions and similar obligations	1,246	(4,341)	-	-
Deposit Guarantee Fund	-	-	-	-
Others	-	(1,012)	-	-
Balance at the close of the year	293,279	283,823	56,296	66,155

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 2020, the Parent Entity had recognised deferred tax assets for the aforementioned items amounting to 138,496 thousand euros and 31,362 thousand euros, respectively (147,300 thousand euros and 30,683 thousand euros, respectively, as at 31 December 2019), 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.

The Parent Company carries out an annual evaluation exercise of the recoverability of deferred tax assets recorded as at 31 December 2020 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 138 million euros as at 31 December 2020 (147 million euros as at 31 December 2019). 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.

(Expressed in thousands of euros)

33. Other assets and liabilities

The breakdown of these items in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	Assets		Liabilities	
	2020	2019	2020	2019
Stocks	94,940	68,127	-	-
Accruals for fees and commissions	37,401	34,865	-	-
Other accruals	618	4,267	60,147	57,481
Transactions in progress	134	813	587	2,080
Community projects fund	-	-	11,060	13,914
Other items	678	493	7,018	7,411
	133,771	108,565	78,812	80,886

As mentioned in Note 10, as at 31 December 2020 and 2019 the heading “Other assets – other accrual items” includes 7,046 thousand and 10,568 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 2020 and 2019, amounting to 3,841 thousand and 6,455 thousand euros, respectively, related to foreclosed assets to be promoted and developed by the Group.

Community projects fund

Set out below is a breakdown of this item included under the heading “Other liabilities” in the consolidated balance sheets as at 31 December 2020 and 2019:

	2020	2019
Education and Development Fund	11,060	13,914
Allocation:	11,060	13,914
Applied to Tangible assets	-	-
Applied to other investments - Financial assets at fair value with changes in other comprehensive income/available for sale (Note 24)	3,437	3,437
Expenses committed during the year	10,332	9,485
Current year maintenance expenses	(10,332)	(9,485)
Amount not committed	7,623	10,477
Revaluation reserves	-	-
	11,060	13,914

Movements during 2020 and 2019 in the balance of the Community Projects Fund are as follows:

	2020	2019
Balance at the beginning of the year	13,914	13,089
Mandatory provision charged against the surplus for the year (Notes 4 and 56)	7,751	10,332
Maintenance costs for the year	(10,332)	(9,485)
Others	(273)	(22)
Balance at year end	11,060	13,914

(Expressed in thousands of euros)

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 2019 and 2018 amounted to 10,332 thousand and 9,485 thousand euros, respectively; and in 2020, 6,116 thousand and 1,943 thousand euros (4,428 and 2,021 thousand euros in 2019) were allocated to the financing of corporate institutions of the MONDRAGON Group and to the Inter-cooperative Education and Development Fund, respectively.

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 2020 and 2019 is as follows:

	2020	2019
Tangible assets	155,468	172,361
Property, plant and equipment for own use	27,866	23,565
Investment properties	6,408	6,902
Foreclosed tangible assets	551,449	599,400
Value adjustments due to asset impairment	(430,255)	(457,506)
	155,468	172,361

Movements during 2020 and 2019 in Non-current assets and disposal groups classified as held for sale are as follows:

	2020	2019
Individualised items:		
Balance at the beginning of the year	172,361	207,496
Additions	5,652	12,019
Disposals	(5,696)	(17,894)
Net impairment provisions (Note 66)	(16,825)	(21,158)
Transfers to tangible assets (Note 30)	3,817	(1,647)
Transfers to write-off assets	-	-
Transfers to inventories (Note 33)	(3,841)	(6,455)
Balance at the close of the year	155,468	172,361

(Expressed in thousands of euros)

The breakdown of the impairment losses or reversals of Non-current assets and disposal groups of items classified as held for sale, recognised in the consolidated profit and loss account for the years ended 31 December 2020 and 2019, is as follows (see Note 66):

	2020	2019
Tangible assets	(16,825)	(21,158)
Other assets	-	-
	(16,825)	(21,158)
Allocations charged to P&L	(16,825)	(21,158)
	(16,825)	(21,158)

The movement in Value Adjustments due to asset impairment under "Non-current assets and disposal groups classified as held for sale" during 2020 and 2019 is as follows:

	2020	2019
Balance at the beginning of the year	457,506	476,435
Net provisions charged to P&L	16,825	21,158
Transfer of Financial assets at amortised cost (Note 25)	134	4,191
Transfer to failed assets against constituted funds and disposals	(32,918)	(27,775)
Transfers to inventories (Note 33)	(14,474)	(14,542)
Transfers to tangible assets (Note 30)	2,881	(1,961)
	429,954	457,506

The breakdown of Measurement Adjustments for asset impairment under Non-current assets and disposal groups classified as held for sale, as at 31 December 2020 and 2019 is as follows:

	2020	2019
Individualised items	429,954	457,506
	429,954	457,506

35. Financial liabilities at amortised cost

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Central bank deposits	1,671,065	296,640
Credit institution deposits	4,575	6,372
Customer deposits	22,984,314	21,425,085
Debt securities issued	59,779	76,840
Other financial liabilities	264,680	376,930
	24,984,413	22,181,867

(Expressed in thousands of euros)

The breakdown by currency and maturity of "Financial liabilities at amortised cost" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
By currency:		
In Euro	24,946,848	22,153,423
In US dollars	30,615	27,015
Pounds sterling	5,547	1,109
Swiss francs	87	24
Japanese yen	170	133
Others	1,146	163
	24,984,413	22,181,867
By maturity:		
On demand	18,029,951	15,313,283
Up to 1 month	1,401,570	1,892,315
Between 1 month and 3 months	1,153,597	618,807
Between 3 months and 1 year	1,639,664	2,325,639
Between 1 year and 5 years	2,305,230	1,466,286
More than 5 years	98,007	112,131
Maturity not determined	332,463	385,565
Valuation adjustments	23,931	67,841
	24,984,413	22,181,867

a) Central bank deposits

The balance of Deposits by central banks in the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

	2020	2019
Bank of Spain	1,680,000	300,000
Valuation adjustments	(8,935)	(3,360)
	1,671,065	296,640

As indicated in note 16, in accordance with the Entity's active funding and liquidity monitoring policy, in June 2020 the third series of targeted longer-term refinancing operations (TLTRO III) announced by the European Central Bank for an amount of 1,680 million euros was undertaken. The final interest rate of this financing will depend on the Group meeting certain targets for eligible transactions. According to management's estimate, the expected interest rate for the Group's outstanding refinancing will be 50 basis points less the deposit facility rate in the period from the start of the transaction until 23 June 2022 and less the deposit facility rate from 24 June 2022 onwards. Interest will accrue over the life of the operation.

In addition, in September 2020, the Group repaid in full the remaining amount of TLTRO II ahead of schedule after participating in the aforementioned TLTRO III auction.

(Expressed in thousands of euros)

The average annual interest rate during the 2020 and 2019 financial years for central bank Deposits amounted to -0.84% and -0.40%, respectively.

The limit assigned by the Bank of Spain to the Parent Entity as at 31 December 2020 in the credit system guaranteed by public funds amounted to 3,047,806 thousand euros (1,086,092 thousand euros as at 31 December 2019).

b) Credit institution deposits

The balance of Credit institution deposits in the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

	2020	2019
Term accounts	4,560	6,345
Repurchase agreements	-	-
Other accounts	8	15
Valuation adjustments	7	12
	4,575	6,372

The average rates of interest per annum on Credit institution deposits in 2020 and in 2019 were -0.51% and -0.45% respectively.

c) Customer deposits

Set out below is a breakdown of the balance of Customer deposits in the consolidated balance sheets as at 31 December 2020 and 2019:

	2020	2019
Spanish Government Bodies	564,471	420,046
Repurchase agreements with counter-parties	500,376	522,932
Other resident sectors:	21,871,023	20,435,830
Demand deposits	18,323,758	15,624,268
Current accounts	6,309,865	4,988,669
Savings accounts	11,981,936	10,610,029
Others	31,957	25,570
Fixed-term deposits:	2,829,056	3,650,292
Time deposits	2,769,984	3,600,666
Others	59,072	49,626
Repurchase agreements	685,300	1,090,090
Valuation adjustments	32,909	71,180
Interest accrued	23,628	31,714
Micro-hedging transactions	9,281	39,466
Other non-resident sectors	48,444	46,277
	22,984,314	21,425,085

(Expressed in thousands of euros)

Average rates of interest per annum during 2020 and 2019 on Customer deposits may be broken down by product as follows:

	2020	2019
Demand deposits	0.02%	0.03%
Fixed- term deposits	0.12%	0.11%

As at 31 December 2020, 625 million euros (1,125 million euros as at 31 December 2019) 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	2020	2019	Maturity date
IM Bonds 5, Asset Securitisation Fund	15/06/2005	-	500,000	15/06/2020
IM Bonds 7, Asset Securitisation Fund	31/03/2006	625,000	625,000	31/03/2021
		615,000	1,125,000	

The nominal annual interest rate of the bonds issued as at 31 December 2020 is 4.01% (between 3.51% and 4.01% as at 31 December 2019). The heading "Other resident sectors - Value adjustments", as at 31 December 2020, includes 9,281 thousand euros (39,466 thousand euros as at 31 December 2019), 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.

The heading "Other sectors - Term deposits - Other" includes 59,354 thousand euros as at 31 December 2020 (76,234 thousand euros as at 31 December 2019), 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 2020 and 2019 (Note 25).

This heading mainly includes the outstanding balance of the loans contributed to these funds amounting to 444,493 thousand euros (495,314 thousand euros as at 31 December 2019), net of the bonds subscribed by the Group amounting to 351,538 thousand euros (384,407 thousand euros as at 31 December 2019).

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.

(Expressed in thousands of euros)

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 2020 and 2019:

	2020	2019
By currency:		
In Euro	22,946,749	21,396,641
In US dollars	30,615	27,015
Pounds sterling	5,547	1,109
Swiss francs	87	24
In Japanese yen	170	133
Others	1,146	163
	22,984,314	21,425,085
By maturity:		
On demand	17,963,215	15,205,991
Up to 1 month	1,401,192	1,891,721
Between 1 month and 3 months	1,153,294	618,448
Between 3 months and 1 year	1,635,689	2,320,124
Between 1 year and 5 years	623,886	1,165,230
More than 5 years	21,895	16,842
Maturity not determined	152,284	135,540
	22,951,455	21,353,896
Valuation adjustments	32,859	71,189
	22,984,314	21,425,085

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 2020 and 2019:

	2020	2019
Promissory notes and bills	-	-
Other non-convertible securities	-	-
Mortgage securities	59,779	151,840
Own securities	-	(75,000)
Valuation adjustments	-	-
	59,779	76,840

Mortgage securities

During 2006 the Group contributed certain mortgage loans to the Securitization fund “I.M. Caja Laboral 1, F.T.A.” 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.” (see Note 25), for the issue of securitisation bonds, which were fully 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 2020 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 59,779 thousand euros (76,840 thousand euros, as at 31 December 2019). 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.

(Expressed in thousands of euros)

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 2020 and 2019 no balance is reflected under this heading because the nominal value of these mortgage secured bonds is included under "Own securities".

In 2020 and 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 5.5% and 3.55%.

Movements in 2020 and 2019 in Debt securities issued are set out below:

	2020	2019
Balance at the beginning of the year	76,840	104,631
Issues	-	-
Securities issued by third parties	-	-
Amortisation	(16,879)	(27,699)
The Group's own securities	-	-
Valuation adjustments	(182)	(92)
Balance at the close of the year	59,779	76,840

e) Other financial liabilities

The breakdown of the balance of the heading Other financial liabilities in the balance sheet as at 31 December 2020 and 2019 is as follows:

	2020	2019
Obligations payable	44,824	40,262
Guarantees received	26,057	66,821
Clearing Houses	14,449	13,937
Collection accounts	93,361	96,892
Special accounts	821	68,133
Accruals for financial guarantees	2,297	2,335
Other items	82,871	88,550
	264,680	376,930

Under "Other items" the entity records a lease liability of 33,772 thousand euros as at 31 December 2020 (Note 30) (30,428 thousand euros as at 31 December 2019).

(Expressed in thousands of euros)

36. Liabilities covered by insurance or reinsurance contracts

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Technical provisions for insurance:	478,324	489,419
Technical provisions for unearned premiums and current risks	69,117	69,479
Direct insurance	69,117	69,479
Mathematical technical provisions	409,207	419,940
Direct insurance	409,207	419,940
Technical provisions for life insurance when the investment risk is assumed by policyholders:	302	316
Direct insurance	302	316
Technical provisions for benefits:	86,823	88,613
Direct insurance	86,823	88,613
Technical provisions for profit sharing and rebates:	1,115	334
Direct insurance	1,115	334
Deposits received in respect of ceded reinsurance	10,928	11,057
Debts due to reinsurance operations	1,747	2,325
	579,239	592,064

37. Provisions

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Pensions and other post-employment defined benefit obligations	29,149	24,700
Other long-term employee benefits	-	-
Pending procedural issues and tax disputes	-	-
Commitments and guarantees given	23,433	20,224
Other provisions	114,899	130,018
	167,481	174,942

(Expressed in thousands of euros)

Movements in Provisions during 2020 and 2019 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 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
As at 31 December 2020						
Balance at the beginning of the year	24,700	-	-	20,224	130,018	174,942
Additions, including increases in existing provisions	16,919	-	-	15,381	4,139	36,439
(-) Amounts used	(12,158)	-	-	-	(16,303)	(28,461)
(-) Unused amounts reversed during the period	(312)	-	-	(12,167)	(2,699)	(15,178)
Other movements	-	-	-	(5)	(256)	(261)
Balance at year-end	29,149	-	-	23,433	114,899	167,481

a) Pensions and other post-employment benefit obligations

As at 31 December 2020 and 2019, 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" "PD 61", "PD 62" 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:

	2020	2019
Commitments entered into	29,149	24,700
	29,149	24,700
Hedges		
Internal funds	29,149	24,700
	29,149	24,700

(Expressed in thousands of euros)

On 31 December 2020 and 2019 the valuation of future benefit flows relating to the cover of post-employment benefit commitments was carried out using the projected unit credit method and assuming the estimated retirement age of each employee to be the earliest age at which he/she is entitled to retire.

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

	2020	2019
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 CPI estimate used in the valuation is 0.6% for 2021, 1.2% for 2022, 1.3% for 2023, 2% for 2024 and beyond. As at 31 December 2019, the estimate used for these years was 1.10% for the year 2021 and 2% from 2022 onwards.

The discount rate applied to the commitments was determined on the basis of the duration of the commitment – 1.5 years – and the reference curve was calculated based on the Euro Denominated Corporate Bonds AA curve as at 31 December 2020 (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 number of legal proceedings have emerged in relation to the use of the official reference rate known as the IRPH (Mortgage Loan Reference Index) in certain mortgage loan contracts.

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.

Ruling 669/2017 of the Plenary of the Spanish Supreme Court (SC), of 14 December 2017, declared that the clause relating to the IRPH passed the transparency controls, thus upholding its validity.

Subsequent to this SC ruling, a court of first instance referred a question to the Court of Justice of the European Union (CJEU) for a preliminary ruling on the interpretation of EU consumer law in relation to the IRPH clause.

On 3 March 2020, the CJEU delivered its judgement on this issue, and reached the following conclusions:

1st.- The judgement does not declare the nullity of the IRPH clauses, but refers the matter to the national courts for their assessment and decision, in order to determine the transparency of a contractual clause that fixes a variable interest rate in a mortgage loan contract, on the understanding that the clause must not only be comprehensible on a formal and grammatical level, but also enable the average consumer, who is reasonably well-informed and reasonably observant and circumspect, to be able to understand the actual operation of the method of calculation of that interest rate and thus to assess, on the basis of precise and comprehensible criteria, the potentially significant economic consequences of that clause for their financial obligations.

2nd. - Linked to the above, the CJEU has already ruled that i) the main elements relating to the calculation of the IRPH were readily available to any person intending to take out a mortgage loan, since they were contained in Circular 8/1990, itself published in the Official State Gazette, and that; ii) the information given to the consumer on the past behaviour of the reference rate is a relevant element in assessing the transparency of the clause.

3rd.- In the event that the National Court declares the nullity of IRPH, given that this would mean the termination of the contract to the detriment of the consumer, in the absence of agreement between the parties, the Court may replace the annulled index with the supplementary index indicated by Law 14/2013 (this being the IRPH entities, the magnitude of which is an average of the IRPH savings banks and IRPH Banks).

Following the CJEU ruling, the Plenary of the Supreme Court handed down four rulings on 12/11/2020 (numbers 595, 596, 597 and 598) in which - applying the case law of the CJEU - it declared that the IRPH clause does not pass the transparency control when there has been no information on the past evolution of the index, but that this lack of transparency does not automatically determine the unfairness of the clause, but only opens up the possibility of carrying out a control of its unfairness, as it deals with an essential element of the loan contract. The SC has concluded in these judgements that the IRPH clause passes the control of abuse, because it is not contrary to good faith to offer the IRPH, nor does its application cause an imbalance in the rights and obligations of the parties to the detriment of the consumer.

(Expressed in thousands of euros)

Senior Management of the Parent Company understands that the likelihood of this Supreme Court doctrine being modified is remote. For this reason, the Entity has not made any provision for this item.

As at 31 December 2020, the total amount of mortgage loans up to date with payment, indexed to IRPH, with individuals is approximately 36.5 million euros.

38. Equity

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Capital	777,913	759,608
Other reserves	979,389	913,393
(Treasury shares)	(2,081)	(1,839)
Profit/(loss) attributable to owners of the parent entity	79,685	127,364
(Interim dividends)	-	(34,233)
	1,834,906	1,764,293

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.

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 contributions to share capital in 2020 and 2019 was 1.25% and 4.5% per annum, respectively.

Movements in 2020 and 2019 in the Parent Entity's capital balance are set out below:

	2020	2019
Balances at the beginning of the year	759,608	741,461
Cooperative returns from the distribution of previous year's surplus (Note 4)	25,831	23,711
Capitalised remuneration of contributions to share capital in the present year	-	-
Contributions to share capital		
- Associate cooperatives	1,151	457
- Members and others	683	97
Less, liquidation of contributions owing to departures		
- Associate cooperatives	(399)	(964)
- Members and others	(8,961)	(5,154)
Transfers to capital classed as financial liabilities	-	-
Balances at the end of the year	777,913	759,608

As at 31 December 2020, 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 15.02% (15.10% in 2019).

During 2013 and 2012, the Parent Company issued two new capital 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 2020 and 2019, the amount subscribed for this first issue was 35,192 thousand and 35,333 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 2020 and 2019, subscriptions for this second issue were 55,309 thousand euros and 55,753 thousand euros, respectively. The remuneration on this second issue is an annual rate of 6% until 30 December 2014, on which date remuneration aligned with the rate on other ordinary contributions approved at the Entity's General Assembly.

Contributions (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.

(Expressed in thousands of euros)

As at 31 December 2020 and 2019, 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:

	2020			2019		
	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	-
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	-

Other reserves

Set out below is a breakdown of the balance of other reserves in the consolidated balance sheets as at 31 December 2020 and 2019:

	2020	**2019**
Reserves or accumulated losses of investments in joint ventures and associates:	(9)	-
Associated Entities	(9)	-
Jointly-controlled entities	-	-
Revaluation reserves:	-	-
Parent Entity	-	-
Others:	979,398	913,393
Reserves (losses) attributed to Parent Entity	1,125,455	1,044,068
Reserves (losses) attributed to Subsidiaries	(146,057)	(130,675)
	979,389	913,393

The movements experienced during the 2020 and 2019 financial years in the balance of Other Reserves are shown below:

	2020	**2019**
Balance as at 31 December 2019	913,393	858,321
Prior year profit distribution	67,300	52,743
Net membership contributions	135	16
Others	(1,439)	2,313
Balance as at 31 December 2020	979,389	913,393

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 2020 and 2019, the Other Reserves heading included 765,284 thousand and 713,487 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.

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.

As at 31 December 2020 and 2019, the balance recorded under this heading contains the amount of the first application of Bank of Spain Circular 4/2017. In addition, as at 31 December 2020, the amount of the allocation to the FSI included in the proposed distribution of results of the annual accounts prepared in 2019 has been included under this heading in accordance with the recommendations of the regulatory bodies (Note 4).

(Expressed in thousands of euros)

The breakdown by Entity of the balance of Other reserves – Reserves/(losses) attributable to Subsidiaries, as at 31 December 2020 and 2019 was as follows:

	2020	2019
Seguros Lagun-Aro Vida, S.A. (*)	6,978	4,557
Caja Laboral Gestión, SGIIC, S.A.	1,256	1,608
Caja Laboral Pensiones, G.F.P., S.A.	127	149
Seguros Lagun-Aro, S.A. (*)	(2,949)	3,803
Caja Laboral Kutxa Cartera, S.L.U.	9,719	8,035
Caja Laboral Bancaseguros O.B.S.V., S.L.U.	4,131	3,380
Sociedad Gestión Activos Caja Laboral, S.A.U.	(12,300)	(12,233)
ISGA Inmuebles, S.A.	(153,019)	(139,974)
	(146,057)	(130,675)

(*) 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 2020 and 2019 is as follows:

	2020	2019
Associates:	-	-
Ategi Green Power, S.L.	(9)	-
Jointly-controlled entities:	-	-
	(9)	-

Provided below is a breakdown by Entities of the contribution to Income attributed to the Group as at 31 December 2020 and 2019:

	2020	2019
Parent Entity	57,080	123,448
Subsidiaries:	22,614	3,924
Seguros Lagun Aro Vida, S.A.	1,926	3,801
Caja Laboral Gestión S.G.I.I.C., S.A.	1,610	1,663
Caja Laboral Pensiones, G.F.P., S.A.	233	165
Seguros Lagun Aro, S.A.	12,471	8,129
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	(11)	(11)
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	2,934	2,643
Sociedad Gestión Activos Caja Laboral, S.A.U.	(45)	(55)
ISGA Inmuebles, S.A.	3,496	(12,411)
Entities accounted for using the equity method:	(9)	(8)
- Associates:	(9)	(8)
ICR Institutional Investment Management, S.G.I.I.C., S.A.		-
Ategi Green Power, S.L.	(9)	(8)
	79,685	127,364

(Expressed in thousands of euros)

39. Other accumulated comprehensive income

The breakdown of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

	2020	2019
Items that may be reclassified to profit or loss:	(165,500)	(87,287)
Hedging derivatives. Cash flow hedging (effective part):	(190,946)	(138,336)
Financial assets with changes in other comprehensive income.	25,446	51,049
Debt instruments	25,446	51,049
Equity instruments	-	-
Items that will not be reclassified to profit or loss	17,567	16,492
Financial assets with changes in other comprehensive income.	17,567	16,492
Equity instruments	17,567	16,492
	(147,933)	(70,795)

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 2020 and 2019 were as follows:

	2020	2019
Balance at the beginning of the year	(70,795)	(895)
Net movement charged to reserves	1,749	(1,198)
Net movement charged /(credited) to P&L	(27,114)	(321)
Sales and depreciation	(27,568)	(505)
Impairment losses (net) charged against profit and loss	454	184
Revaluations gains / (losses), net	837	39,799
Variations in micro-hedging cash flows	(52,610)	(108,180)
Others	-	-
	(147,933)	(70,795)

In order to adequately evaluate the evolution of this heading, the exceptional circumstances in the financial markets during 2020 and 2019 must be taken into consideration, as explained in Note 18.

(Expressed in thousands of euros)

The breakdown by Entity of the amount included in "Other accumulated comprehensive income" in Net Equity as at 31 December 2020 and 2019 was as follows:

	2020	2019
Parent Entity	(169,260)	(90,430)
Subsidiaries:	21,327	19,635
- Seguros Lagun-Aro Vida, S.A.	19,824	18,474
- Seguros Lagun Aro, S.A.	1,503	1,161
Associates and Jointly-controlled companies	-	-
	(147,933)	(70,795)

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 set at 24%.

The legislation applicable to the payment of corporate income tax for 2020 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 2020, 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 2020 and 2019, with the corporate income tax base was as follows:

	2020	2019
Accounting profit for the year before tax (*)	98,232	149,328
Permanent differences		
Increases		
- Non-deductible expenses	212	51
- Other items	-	-
- Costs recognised in equity	-	-
Decreases		
- Mandatory allocation to Development and Education Fund (Note 56) (*)	(7,751)	(10,332)
- Allocation to the Inter-Coop Welfare Fund	-	(14,227)
- Gross deductible interest paid on account for contributions to share capital	(9,784)	(34,316)
- 50% of the mandatory allocation to the Mandatory Reserve Fund	(19,379)	(25,831)
- Reinvested capital gains from the sale of real estate for exploitation	(1,255)	(3,653)
- Deductions for double taxation	(18,365)	(14,711)
- Other items	(1,272)	-
Accounting tax base	40,638	46,309
Temporary differences		
- Arising in the current year	(10,031)	(10,909)
- Revitalisation Plan	4,449	(15,504)
- Allocations to other provisions	(14,863)	659
- Opening fees (IFRS 9)	(1,019)	(1,147)
- Others	1,402	5,083
Tax base	30,607	35,400
Offset of tax losses	(30,607)	(35,400)
Net tax base	-	-
Gross amount payable (28%)	-	-
Deductions and allowances	-	-
Net amount	-	-
Withholdings and payments on account	(461)	(560)
Corporate income tax payable / (refundable)	(461)	(560)

(*) 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).

(Expressed in thousands of euros)

Below is a summary of "Tax expenses or (-) income related to profit from continuing operations” in the Parent Entity's 2020 and 2019 profit and loss accounts:

	2020	2019
Accounting basis at applicable rate	11,379	12,967
Deductions and allowances	(630)	(1,167)
Other items	185	(111)
	10,934	11,689

The composition of "Expenditure or (-) Income for Taxes on Profit from continuing operations" in the consolidated profit and loss account for 2020 and 2019 is as follows:

	2020	2019
Accounting basis at applicable rate	11,379	12,967
Deductions and allowances	(630)	(1,167)
Other items	185	(111)
Tax on profits of the Parent Company	10,934	11,689
Tax on profits of the Investee Entities		
Accounting basis at applicable rate	4,737	4,333
Other items	-	-
	15,671	16,022

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 2020 and 2019 were generated or reversed for the following items and amounts:

	2020	2019
Hedging derivatives Cash flow hedges (effective portion)	(20,459)	(42,070)
Financial assets at fair value with changes in other comprehensive income	(10,361)	14,003
	(30,820)	(28,067)

As at 31 December 2020 and 2019, 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	2020	2019
Tax loss carry-forwards	2042	494,627	526,070
		494,627	526,070

(Expressed in thousands of euros)

As at 31 December 2020 and 2019, 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	2020	2019
Deductions for double taxation	2041 to 2049	11,022	11,019
Deductions with joint limit on quota at 35%	2038 to 2049	12,130	12,127
Deductions with joint limit on quota at 70%	2040 to 2049	8,210	7,537
		31,362	30,683

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).

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 2020 the Parent Entity’s tax returns for 2016 to 2020 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 2020. Due to the different interpretations that may be afforded to tax regulations applicable to the transactions performed by the Group, for the years pending inspection certain contingent tax liabilities could exist. However, in the opinion of the Parent Entity's Directors, the possibility of such contingent liabilities arising is remote and, in any event, the tax liability which could arise would not have a significant effect on the Group's consolidated annual accounts as a whole.

(Expressed in thousands of euros)

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 2020 and 2019 assigned to the following financial assets and liabilities, classified in accordance with the various measurement methods applied by the Group:

2020

	Total Balance	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Cash, cash balances at central banks and other on demand deposits	2,749,066	2,749,066	-	-	2,749,066
Financial assets held for trading	24,055	24,055	22,080	1,975	-
Financial assets at fair value with changes in other comprehensive income	791,888	791,888	694,438	-	97,450
Financial assets not intended for trading, which are necessarily valued at fair value	49,966	49,966	36,786	2,265	10,915
Financial assets at amortised cost	23,215,662	23,792,465	8,785,003	-	15,007,462
Derivatives – hedge accounting	85,324	85,324	-	85,324	-
TOTAL FINANCIAL ASSETS	**26,915,961**	**27,492,764**	**9,538,307**	**89,564**	**17,864,893**
Financial liabilities held for trading	994	994	554	440	-
Financial liabilities at amortised cost	24,984,413	24,984,413	-	-	24,984,413
Derivatives – hedge accounting	340,810	340,810	-	339,994	816
TOTAL FINANCIAL LIABILITIES	**25,326,217**	**25,326,217**	**554**	**340,434**	**24,985,229**

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**

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.

- 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.

(Expressed in thousands of euros)

- 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 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	15,013	-
Net entries / (exits) in Level 3	-	-
Exchange rate and other differences	-	-
Balance as at 31 December 2019	**114,247**	**518**
Valuation adjustment recorded in profit and loss account	420	298
Valuation adjustment not recorded in profit and loss account	-	-
Purchases, sales and liquidations	(6,302)	-
Net entries / (exits) in Level 3	-	-
Exchange rate and other differences	-	-
Balance as at 31 December 2020	**108,365**	**816**

During 2020 and 2019, there were no transfers of financial instruments between the different levels of valuation.

Ii) <u>Fair value of non-financial assets</u>

The comparison as at 31 December 2020 and 2019 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:

	2020		2019	
	Value recorded	Fair value	Value recorded	Fair value
Assets				
Tangible asset:				
For own use and investment properties	326,649	333,240	330,523	368,437
Non-current assets and disposal groups classified as held for sale	155,468	155,468	172,361	172,361
Stocks	94,940	94,940	68,127	68,127

(Expressed in thousands of euros)

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

- As at 31 December 2020 and 2019 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 2020 by independent entities, in line with the rules set out by the Bank of Spain, represented 86% of the book value of these headings (85% as at 31 December 2019). 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 valuation companies: Krata, S.A., Servicios Vascos de Tasaciones, S.A., Tinsa Tasaciones Inmobiliarias S.A. and LKS Tasaciones.

42. Financial guarantees

The breakdown of this heading as at 31 December 2020 and 2019 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:

	2020	2019
Financial guarantees	214,641	207,193
	214,641	207,193

(Expressed in thousands of euros)

43. Loan commitments granted and other commitments granted

The breakdown of this heading as at 31 December 2020 and 2019 is as follows:

	2020	2019
Loan commitments granted	1,036,064	959,464
Available through third parties:	1,036,064	959,464
Credit institutions	342	5
The Public Administrations sector	152,898	144,579
Other resident sectors	882,681	814,816
Non-residents	143	64
Other commitments granted	310,370	304,984
Purchase of Annotated Debt	-	-
Securities subscribed pending disbursement	31,620	26,173
Other guarantees and penalties provided	108,284	113,854
Irrevocable documentary credits	17,338	11,122
Other contingent commitments	153,128	153,835
Documents delivered to Clearing Houses	153,128	153,835
	1,346,434	1,264,448

44. Interest income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Financial assets held for trading	235	710
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value with changes in other comprehensive income	11,726	12,090
Financial assets at amortised cost	229,830	257,712
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	40	100
Derivatives - hedge accounting, interest rate risk	22,583	8,243
Other assets	8	16
Interest income from liabilities	14,151	4,224
	278,573	283,095

The heading “Financial assets at amortised cost” included 101,909 thousand euros in the 2020 financial year, corresponding to operations with mortgage guarantee (109,221 thousand euros in 2019).

The heading "Income from interest on liabilities" includes interest income relating to the TLTRO III funding programme.

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 2020 and 2019, 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 2020 and 2019 was as follows:

	2020	2019
Bizkaia	88	89
Gipuzkoa	66	66
Araba	29	29
Navarra	40	40
New Network	78	80
	301	304

45. Interest expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities at amortised cost	38,281	53,103
Derivatives - hedge accounting, interest rate risk	(31,648)	(45,051)
Other liabilities	976	964
Interest expenditure on assets	16,359	24,195
	23,968	33,211

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 2020 and 2019, 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 2020 and 2019 is as follows:

	2020	2019
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	3,477	5,712
Financial assets at fair value with changes in other comprehensive income	905	1,361
	4,382	7,073

(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 2020 and 2019 is as follows (Note 28):

	2020	2019
Associated Entities	(9)	(9)
Jointly-controlled entities	-	-
	(9)	(9)

48. Fee and commission income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
For contingent risks	3,049	2,936
For contingent commitments	1,377	1,116
For currency and foreign bank note exchange	22	99
For collection and payment services	48,924	50,267
For securities services:	45,581	43,017
Underwriting and placement of securities	-	-
Purchase-sale of securities	1,589	661
Administration and custody	1,047	1,496
Asset management	42,945	40,860
For marketing of non-banking financial products:	4,188	4,250
Investment funds	2,389	2,450
Pension funds	434	408
Insurance	1,365	1,392
Others	-	-
Other fees	12,926	14,665
	116,067	116,350

49. Fee and commission expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Brokerage in asset and liability transactions	23	37
Fees assigned to other correspondent entities:	3,135	4,039
For collection or return of bills of exchange	2	3
For other items	3,133	4,036
Fees paid on securities operations	873	933
With money brokers	845	858
Others	28	75
Other fees	8,163	7,208
	12,194	12,217

(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 2020 and 2019, can be summarised according to the source of the entries therein, as follows:

	2020	2019
Profit or (-) loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	38,211	737
Financial assets at fair value with changes in other comprehensive income	38,211	741
Financial assets at amortised cost	-	(4)
Profit or (-) loss on non-trading financial assets mandatorily measured at fair value through profit or loss, net	(89)	5,230
Financial assets not intended for trading, which are necessarily valued at fair value through profit or loss	(89)	5,230
	38,122	5,967
Profit	47,687	13,203
Loss	(9,565)	(7,236)
	38,122	5,967

Whereas the breakdown, based on the nature of the financial instruments that gave rise to these balances in the years ended 31 December 2020 and 2019, is as follows:

	2020	2019
Debt securities	38,267	1,639
Equity instruments	(145)	4,328
Derivatives		-
	38,122	5,967

During the 2020 financial year, the Parent Entity sold fixed-income issues for a nominal amount of 370,000 thousand euros, realising gross capital gains of 36,752 thousand euros, which were recognised under "Gains or (-) losses on financial assets and liabilities held for trading, net" in the profit and loss account for the 2020 financial year (Note 51). At the same time, the Entity undid the hedge with financial swaps, recording a gross loss of 26,660 thousand euros, which have been recorded under the heading “Profits and (-) losses resulting from hedge accounting, net” in the profit and loss account for 2020 (Note 53).

(Expressed in thousands of euros)

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 2020 and 2019, according to the origin of the items included in it, is the following:

	2020	2019
Financial assets held for trading	(1,005)	772
	(1,005)	772
Profit	28,408	63,313
Loss	(29,413)	(62,541)
	(1,005)	772

Whereas the breakdown, based on the nature of the financial instruments that gave rise to these balances in the years ended 31 December 2020 and 2019, is as follows:

	2020	2019
Debt securities	433	6,443
Equity instruments	(90)	90
Derivatives	(1,348)	(5,761)
	(1,005)	772

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 2020 and 2019 is as follows:

	2020	2019
Financial assets designated at fair value through profit or loss	-	-
	-	-
Profit	-	-
Loss	-	-
	-	-

(Expressed in thousands of euros)

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 2020 and 2019 is as follows:

	2020	2019
Hedging derivatives	(355,707)	(259,136)
Hedged items	328,981	259,074
	(26,726)	(62)
Profit	343,040	378,305
Loss	(369,766)	(378,367)
	(26,726)	(62)

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 2020 and 2019. 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).

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 2020 and 2019 is as follows:

	2020	2019
Profit	1,460,242	972,722
Loss	(1,460,014)	(972,221)
	228	501

55. Other operating income

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Sales and income from provision of services	1,538	1,638
Other operating products	14,399	12,921
Financial fees offsetting costs	3	-
Revenues from other operating leases (net) (Note 30)	7,918	6,919
Inventory variations in real estate assets	-	-
Other products	6,478	6,002
	15,937	14,559

(Expressed in thousands of euros)

56. Other operating expenses

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Contribution to Deposits Guarantee Fund (Note 10)	29,346	26,509
Contribution to National Resolution Fund (Note 10)	3,458	3,131
Mandatory allocation to welfare funds (Notes 4 and 33)	7,751	10,332
Purchases and expenses related to real estate assets	-	-
Tax on Deposits of Credit Institutions	6,546	6,097
Other items	5,870	4,160
	52,971	50,229

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 2020 and 2019 totalling 7,751 thousand and 10,332 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 2020 included the estimated financial contributions for the conversion of deferred tax assets into credit receivable by the Tax Authority amounting to 2,666 thousand euros (2,340 thousand euros in 2019).

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 2020 and 2019 is as follows:

	2020	2019
Revenues from insurance and reinsurance policies issued	187,683	189,528
	187,683	189,528

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 2020 and 2019 is as follows:

	2020	2019
Expenses of insurance and reinsurance contracts issued	121,506	133,240
	121,506	133,240

(Expressed in thousands of euros)

59. Administration costs

a) Staff costs

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Salaries and bonuses paid to active employees	122,082	122,623
Social security contributions	5,677	6,049
Severance payments	164	50
Staff training costs	879	764
Other staff costs	906	800
	129,708	130,286

As at 31 December 2020 and 2019 the Parent Entity records remuneration related to services provided in the course of business, as analysed below:

	2020			2019		
	Subsidised interest	Market interest	Difference	Subsidised interest	Market interest	Difference
Low interest rate loans	-	190	190	2	261	259

The average number of employees of the Group in the years 2020 and 2019 distributed by categories is as follows:

	2020	2019
Directors	43	41
Managers	402	443
Specialists	779	810
Administrative personnel	880	924
	2,104	2,218

Of the total workforce as at 31 December 2020, 20 people had some degree of recognised disability (20 as at 31 December 2019).

As at 31 December 2020 and 2019, the distribution of the Group's personnel by gender was as follows:

	Number of employees					
	2020			2019		
	Women	Men	Total	Women	Men	Total
Directors	8	35	43	9	32	41
Managers	140	262	402	145	298	443
Specialists	430	349	779	439	371	810
Administrative personnel	530	350	880	563	361	924
	1,108	996	2,104	1,156	1,062	2,218
Parent Entity	924	918	1,842	907	964	1,871
Other entities:						
Subsidiaries	184	78	262	249	98	347
	1,108	996	2,104	1,156	1,062	2,218

(Expressed in thousands of euros)

The distribution by gender of the members of the Governing Board of the Parent Entity, as at 31 December 2020 and 2019, was as follows:

	Number of members					
	2020			2019		
	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 2020 and 2019 is as follows:

	2020	2019
For buildings, installations and materials:	11,801	10,763
Rentals (Note 30)	461	664
Maintenance of fixed assets	7,962	6,309
Lighting, water and heating	2,212	2,551
Forms and office materials	1,166	1,239
IT	7,523	8,629
Communications	5,188	4,813
Advertising and publicity	8,201	8,353
Legal costs and lawyers' fees	2,618	2,586
Technical reports	25,251	26,685
Surveillance and transfer of funds services	1,788	1,885
Insurance and self-insurance premiums	925	863
By Governing and Control Bodies	34	95
Staff representation and travel expenses	807	1,600
Association charges	384	304
Administrative services subcontracted	6,943	6,493
Rates and taxes	3,402	3,929
Other expenses	5,472	5,486
	80,337	82,484

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). Thus, under "Leases", the Group recognises the costs of leases of less than 12 months, as well as those contracts where the value of the leased item is low, for an amount, being insignificant, in the profit and loss account, of 672 thousand euros, as at 31 December 2019.

In 2020, 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 40 thousand euros (36 thousand euros in 2019).

(Expressed in thousands of euros)

60. Amortisation

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Material asset:	22,626	22,002
Property, plant and equipment	21,759	21,170
For own use	14,454	14,803
Assigned under financial leases	7,305	6,367
Investment properties	867	832
Intangible assets	-	55
	22,626	22,057

61. Provisions or (-) reversal of provisions

The breakdown of this heading in the consolidated profit and loss account for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Provisions for pensions and other post-employment defined benefit obligations (Note 37)	16,607	(721)
Provisions for commitments and guarantees given (Note 37)	3,215	(315)
Provisions for pending legal issues and tax litigation (Note 37)	-	-
Other provisions (Note 37)	1,440	16,832
	21,262	15,796

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 2020 and 2019 is as follows:

	2020	2019
Financial assets with changes in other comprehensive income (Note 24)	631	(160)
Debt securities	631	(160)
Equity instruments	-	-
Financial assets at amortised cost (**) (Note 25)	58,830	(11,231)
Loans and advances	59,372	(11,231)
Debt securities	(542)	-
	59,461	(11,391)

(*) Includes recovery of failed assets amounting to 1 thousand euros as at 31 December 2020 (413 thousand euros as at 31 December 2019).

(**) Includes amortisation of insolvencies and recovery of failed assets in 2020 amounting to 3,051 and 4.689 thousand euros, respectively (2,857 and 5,433 thousand euros in 2019, respectively).

(Expressed in thousands of euros)

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 2020 and 2019 is as follows:

	2020	2019
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 2020 and 2019 is as follows:

	2020	2019
Tangible assets (Note 30)	634	1,313
Other assets	-	-
	634	1,313

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 2020 and 2019 is as follows:

	2020	2019
Net gains (losses) on the sale of tangible assets	(455)	(745)
Net gains (losses) on disposal of shareholdings	-	-
	(455)	(745)

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 2020 and 2019 is as follows:

	2020	2019
Net gains/(losses) on sale of non-current assets	24,051	16,957
Net provisions for Impairment losses of Non-current assets for sale (Note 34)	(16,825)	(21,158)
	7,226	(4,201)

(Expressed in thousands of euros)

67. Transactions with Jointly-controlled entities and Associates

The significant balances recorded as at 31 December 2020 and 2019 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 2020 and 2019 relating to assets and liabilities held with jointly controlled entities and associates is as follows:

	2020	2019
Balances		
Customer deposits	118	119
Non-current assets for sale	-	-
Guarantees	-	-
Loans and advances	667	667

The most significant transactions carried out in 2020 and 2019 with Jointly-controlled entities and Associates are as follows:

	2020	2019
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 2020 and 2019 is as follows:

	2020	2019
Managed by the Entity's Group:	4,827,338	4,785,775
Investment Funds and companies	2,637,768	2,638,523
Pension funds and EPSVs	1,802,379	1,747,861
Insurance contract saving	387,191	399,391
Customer portfolios managed on a discretionary basis	-	-
Marketed but not managed by the Entity's Group	1,299,843	1,088,330
	6,127,181	5,874,105

As at 31 December 2020, the balance of deposits of securities owned by third parties amounted to 5,220,130 thousand euros (5,231,108 thousand euros as at 31 December 2019).

Total debt securities assigned by the Group as at 31 December 2020 and 2019 amounted to 1,539,262 thousand and 1,588,657 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 2020, 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).

Moreover, there are also procedures to check the information incorporated into the system covering the data introduced, especially those related to income, equity, the mortgage guarantee through a valuation of the property, the use of the financing, the general data on the client and the behaviour bases of the client.

(Expressed in thousands of euros)

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 2020 and 2019 amounted to 10,092 million euros and 9,983 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 7,739 and 7,554 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	
	2020	2019
	Nominal value	Nominal value
Total loans (a)	**10,538,405**	**10,479,567**
Mortgage shares issued	**-**	**-**
Of which: loans recognised in assets	-	-
Mortgage transfer certificates issued	**446,064**	**496,763**
Of which: loans recognised in assets	446,064	496,763
Mortgage loans securing financing received	**-**	**-**
Loans supporting the issuance of mortgage bonds and covered bonds	**10,092,341**	**9,982,804**
Non-eligible loans (b)	2,353,363	2,429,264
They fulfil requirements to be eligible, except the limit stipulated in Article 5,1 of RD 716/2009	1,489,158	1,570,595
Other non-eligible loans	864,205	858,669
Eligible loans (c)	7,738,978	7,553,540
Loans hedging mortgage bond issues	-	-
Loans eligible for hedging of Mortgage Bond issues	7,738,978	7,553,540
Non-computable amounts (d)	8,336	7,963
Computable amounts	7,730,642	7,545,577

(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.

(Expressed in thousands of euros)

The following table shows a breakdown of the mortgage loans and credits according to the various attributes of these amounts as at 31 December 2020 and 2019:

	Thousands of euros			
	2020		2019	
	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	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
1 ORIGIN OF THE OPERATIONS	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
1.1 Originated by the entity	10,036,731	7,697,345	9,920,419	7,507,099
1.2 Subrogated from other entities	55,609	41,632	62,385	46,441
1.3 Rest			-	-
2 CURRENCY	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
2.1 Euro	10,092,340	7,738,977	9,982,804	7,553,540
2.2 Other currencies	-	-	-	-
3 PAYMENT SITUATION	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
3.1 Payment normality	9,722,480	7,602,126	9,551,107	7,392,619
3.2 Other situations	369,860	136,851	431,697	160,921
4 AVERAGE RESIDUAL MATURITY	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
4.1 Up to ten years	4,586,244	3,289,750	4,412,340	3,106,579
4.2 Over ten years up to twenty years	5,505,570	4,448,828	5,569,386	4,446,532
4.3 Over twenty years up to thirty years	526	399	1,078	429
4.4 More than thirty years	-	-	-	-
5 INTEREST RATES	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
5.1 Fixed	1,266,057	979,013	672,310	499,151
5.2 Variable	-	-	-	-
5.3 Mixed	8,826,283	6,759,964	9,310,494	7,054,389
6 OWNERS	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
6.1 Legal entities and individual entrepreneurs (business activities)	912,778	1,174	928,034	1,273
Of which: Construction and real estate development	49,514	-	55,745	-
6.2 Other homes	9,179,562	7,737,803	9,054,770	7,552,267
7 TYPE OF GUARANTEE	**10,092,340**	**7,738,977**	**9,982,804**	**7,553,540**
7.1 Assets/finished buildings	10,041,572	7,730,901	9,930,468	7,543,947
7.1.1 Homes	9,515,656	7,714,198	9,401,891	7,526,034
Of which: Social housing	1,134,529	800,442	1,127,850	785,122
7.1.2 Offices and commercial premises	291,094	13,842	298,558	15,004
7.1.3 Other buildings and constructions	234,822	2,861	230,019	2,909
7.2 Assets/Buildings under construction	4,678	-	3,381	-
7.2.1 Homes	3,266	-	1,776	-
Of which: Social housing	-	-	-	-
7.2.2 Offices and commercial premises	1,412	-	1,605	-
7.2.3 Other buildings and constructions	-	-	-	-
7.3 Land	46,090	8,076	48,955	9,593
7.3.1 Urban land	25,873	4,149	26,544	5,090
7.3.2 Other land	20,217	3,927	22,411	4,503

(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 2020 and 2019, amounted to 7,731 million and 7,546 million euros, respectively.

(Expressed in thousands of euros)

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 31 December 2020 or 2019, 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 31 December 2020 and 2019, amounted to 446 and 497 million euros, respectively.

The nominal value of all non-eligible loans and mortgage loans totalled 2,353 million euros as at 31 December 2020 (2,429 million as at 31 December 2019); 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 864 and 859 million euros at the 2020 and 2019 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 2020 and 2019, is as follows:

As at 31 December 2020

	Thousands of euros					
	Principal drawn down with regard to the last available valuation amount (*loan to value*) (b)					
	2020					
	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)	**2,466,496**	**2,724,293**	**7,131**	**2,541,057**	**-**	**7,738,977**
- On homes	2,448,987	2,713,342	-	2,541,057	-	7,703,386
- On others	17,509	10,951	7,131	-	-	35,591

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

(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 2020 and 2019 are as follows:

	Thousands of euros	
	Eligible loans (a)	**Non-eligible loans (b)**
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
1 Opening balance 2020	7,553,539	2,429,264
2 Derecognised during the year	787,748	710,267
2.1 Principal due, collected in cash	17,477	10,300
2.2 Early cancellations	154,725	63,409
2.3 Subrogation of other entities	1,386	137
2.4 Other	614,160	636,421
3 Additions during the year	973,186	634,366
3.1 Originated by the entity	966,131	614,959
3.2 Subrogation of other entities	2,376	1,382
3.3 Others	4,679	18,025
4 Closing balance 2020	7,738,977	2,353,363

(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 2020 and 2019 are as follows:

	Thousands of euros	
	2020	**2019**
	Principals available (a)	**Principals available (a)**
Mortgage loans that back the issue of mortgage bonds and certificates	**40,975**	**32,610**
- Potentially eligible (b)	-	-
- Non-eligible	40,975	32,610

(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 2020 and 2019, 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 8.08% and 15.89%, 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 31 December 2020 and 2019.

	Thousands of euros			
	2020		2019	
Mortgage securities	Nominal value	Average residual maturity (in months)	Nominal value	Average residual maturity (in months)
1 Mortgage bonds issued	**-**		**-**	
2 Mortgage certificates issued	**625,000**		**1,200,000**	
Of which: registered in liabilities	625,000		1,125,000	
2.1 Debt securities. Issued through public offer	-		75,000	
2.1.1 Residual maturity up to one year	-		75,000	
2.1.2 Residual maturity greater than one year and up to two years	-		-	
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	625,000		1,125,000	
2.3.1 Residual maturity up to one year	625,000		500,000	
2.3.2 Residual maturity greater than one year and up to two years	-		625,000	
2.3.3 Residual maturity greater than two years and up to three years	-		-	
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)	**446,064**	**216**	**496,763**	
4.1 Issued through public offer	-	-	-	
4.2 Other issues	446,064	216	496,763	

(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 2020 and 2019 is set out below:

	Days	
	2020	**2019**
Average supplier payment period	21	19
Paid transaction ratio	21	19
Transactions pending payment ratio	19	23
	Amount (thousands of euros))	
	2020	**2019**
Total payments made	303,410	273,773
Total payments outstanding	7,054	10,289

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 2020 and 2019 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 2020 and 2019, there were no business combinations of relevance to the Group.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

ANNEX I

INDIVIDUAL DETAILS OF HOLDINGS IN GROUP COMPANIES AND OTHER HOLDINGS AS AT 31 DECEMBER 2020
(Expressed in thousands of euros)

			2020								
			% 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	560,299	82,567	53,208	1,111
Seguros Lagun-Aro, S.A.	Bilbao	Insurance	49.64%	50.36%	17,649	-	17,649	217,755	59,976	93,222	12,033
Seguros Lagun-Aro 2003, A.I.E.	Bilbao	Provision of services	-	100%	-	-	-	4,881	2,792	-	-
Caja Laboral Gestión, S.G.I.I.C S.A.	Mondragón	Investment fund manager	100%	-	6,280	-	6,280	14,538	9,146	21,402	1,610
Caja Laboral Pensiones G.F.P. S.A.	Mondragón	Pension fund manager	100%	-	2,500	-	2,500	3,624	2,860	3,188	233
Caja Laboral Euskadiko Kutxa Cartera, S.L.U.	Mondragón	Holding company	100%	-	59,673	-	59,673	62,631	62,626	6,849	6,833
Caja Laboral, Bancaseguros, O.B.S.V. S.L.U.	Bilbao	Banking Insurance Operator	100%	-	10	-	10	15,260	5,866	42,449	2,934
Sociedad Gestión Activos Caja Laboral, S.A.U.	Mondragón	Property Asset Manager	100%	-	4,970	(4,000)	970	6,935	6,481	356	(60)
ISGA Inmuebles, S.A.	Mondragón	Property Asset Manager	100%	-	122,935	(59,489)	63,446	197,675	158,776	45,756	2,729
					248,524	(63,489)	185,035				

			2020								
			% 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	(18)	315	3,316	1,102	-	(33)
					333	(18)	315				

(a) During the 2020 financial year, the Entity subscribed to shares corresponding to the outstanding disbursements not called up as at 31 December 2019 (Note 28).

(*) The accompanying financial information corresponds to the standardised financial statements of the investees, as at 31 December 2020.

This appendix forms an integrated part of Note 28 to the individual annual accounts and both should be read together.

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	Impairment	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 II

CAJA LABORAL POPULAR COOP. DE CRÉDITO

AGENCY CONTRACTS AS AT 31 DECEMBER 2020 AND 2019

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

CAJA LABORAL POPULAR COOP. DE CRÉDITO

ANNEX III

ANNUAL BANKING REPORT

Information on 31 December 2020 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 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 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 Annual Accounts of Laboral Kutxa for the year ended 31 December 2020, lists the companies operating in each jurisdiction, including among other details their names, geographical location and area of activity.

b) Turnover, number of full-time employees, gross profit before tax and tax on profit

	Business Volume (Thousands of euros)	No. equivalent full-time employees	Gross profit before tax	Tax on profit
Spain	402,613	2,133	95,356	15,671
TOTAL	**402,613**	**2,133**	**95,356**	**15,671**

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 2020. The data for equivalent full-time employees has been obtained from information on the workforce of each company/country at the end of 2020.

The return on the Group's assets, calculated as net profits attributed to the Parent Entity divided by total assets, as at 31 December 2020, stood at 0.29%.

c) Grants or public aid received

Grants and public aid received by the Laboral Kutxa Group during 2020 were not significant.

CAJA LABORAL POPULAR COOP. DE CRÉDITO

CONSOLIDATED MANAGEMENT REPORT FOR THE 2020 FINANCIAL YEAR

2020 will go down in history for the human drama caused by a pandemic that has been the biggest exogenous shock to the global economy in the last eight decades. The swift and forceful response of the financial authorities was unable to prevent global GDP in the third quarter of 2020 from being more than 5% below its pre-health crisis level.

For the time being, and until a significant part of the population is vaccinated, it will be necessary to continue to implement a policy of supporting both businesses and workers, keeping money flowing into the economy. Fortunately, the temporary suspension of EU fiscal rules gives countries the space to do so.

Such a crisis brings with it a destruction of the business fabric, the extent of which is yet to be seen. In this respect, the European Recovery Fund (Next Generation EU) provides an opportunity to modernise the productive fabric, with the selection of projects being a critical aspect in order to successfully carry out the process.

In terms of the geographical focus of Laboral Kutxa, a fall of 11.3% is expected for 2020 in Spain as a whole, 10.2% in the Basque Autonomous Community and 9.5% in the Navarre Autonomous Community, figures that are alarming and which speak for themselves regarding the magnitude of the shock.

As for 2021, a growth rate of 6.5% is expected in Spain as a whole and 7% in both the Basque Autonomous Community and the Navarre Autonomous Community. These figures are, of course, subject to a high degree of uncertainty and are conditional on aspects that have been discussed, such as the end of the pandemic, the adjustment of the business fabric and the labour market, and access to European funds.

Throughout 2020, the ECB kept the deposit facility rate at -0.50%, as well as the tiering system introduced with regard to reserve requirements. In addition, the ECB's refinancing operations and the expansion of its purchase programmes have helped to ease money market conditions. In December the ECB confirmed its intention to extend the purchase programmes as well as to improve the conditions for the provision of liquidity to the financial sector.

In terms of profitability, the scenario of negative interest rates, together with the difficulties to grow in terms of turnover, hampers the capacity to generate margins in the sector. Costs in general continue to be trimmed, especially in the branch networks, and the foreseeable rise in non-performing loans in the coming years requires a high level of provisions. The impossibility of profit distribution, resulting from the ECB's recommendations, has led to the anticipation of future losses, pushing 2020 profitability to historic lows. If the sector already presented a worrying situation in terms of RoE, it will become even more problematic in the future, favouring new integration processes, as suggested by the ECB and the Bank of Spain after the summer, and as confirmed by the first movements in the sector.

Solvency is a factor that is even more important in the current situation. The sector in Spain is somewhat weak in comparison with other European countries, although in contrast, the supervisor is showing a greater level of flexibility, easing capital buffer requirements and allowing longer periods for compliance with MREL requirements.

Although non-performing loans will increase in the coming years, it is difficult to foresee how they will evolve, as they will affect the different sectors and branches of activity unevenly, meaning that the development of the NPL ratio in institutions will depend on the distribution of their credit portfolios. In 2020, the trend in doubtful assets was assisted by the supervisor's relaxation of the accounting criteria for classifying refinanced operations (through government-backed operations or moratoriums).

The pandemic has led to the acceleration of social habits and certain banking customer behaviours, which will have a significant impact on the financial business in the future, including a strong increase in the use of remote channels and the growth of contactless payment methods.

Against this background, Laboral Kutxa has managed to maintain its capacity to generate profits, despite a scenario of adverse interest rates and the downturn in economic activity, which has enabled it to set aside extraordinary provisions to prevent the future impact of COVID-19. It also continues to maintain a high level of solvency and liquidity.

The key figures of the business are set out below:

Total assets amounted to 27.904,1 million euros, a 11.36% increase on the previous year's figure.

Customer deposits amounted to 22,984.3 million euros, 7.28% more than at the end of 2019, mainly due to the increase of 2,699 million euros in demand deposits, 17.3%, due in part to the transfer of funds from time deposits, which reduced their balance by 821.2 million euros.

Loans and advances to customers totalled 14,458.7 million euros at the 2020 year-end. Excluding the effect of the variation in other financial assets, traditional lending increased by 4.22%, driven by the significant increase in financing to public administrations.

The number of doubtful risk loans to customers fell 7.91% and the non-performing loans ratio under the heading "Other resident sectors" fell to 3.31% at the end of 2020, which is significantly lower than the sector average, which for deposit institutions stands at 4,44%.

Financial assets at fair value with changes in other comprehensive income and debt securities at amortised cost amounted to 791.9 million and 8,232.3 million euros, respectively, with the portfolio at amortised cost representing 29.5% 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 51.2% in 2020 and the structural liquidity ratio, calculated in terms of loans/deposits, stood at 65.9%.

With regard to the level of solvency, the Group's computable capital as at 31 December 2020 amounted to 1,804.8 million euros. The CET1 (Common Equity Tier 1) ratio is 21.20%, one of the best in the sector and coinciding with that of total solvency.

On the profit and loss account, the following income and expense items should be noted:

Profits net of taxes amounted to 79.7 million euros in 2020, reaching 87.4 million benefit prior to allocation to the social welfare fund.

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 254.6 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 148 million euros in 2020, bringing gross income to 402.6 million euros.

In terms of costs, the Group continued its policy of containment and rationalisation of costs, which has led to a 1.3% reduction in administrative expenses, which stand at 210 million euros.

The effect on earnings of impairment losses together with allocations to provisions and results from non-current assets held for sale amounted to 74.1 million, with a significant increase in loan-loss provisions and the realisation of gains on foreclosed assets. 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 2020 annual accounts.

The insurance business has contributed overall results of 46.2 million euros to the Laboral Kutxa Group, as a result of the renewal of the policy portfolio, a low claims ratio and efficient cost management.

In the real estate sector, the process of reducing risk positions continued in 2020 with the real estate development and construction business falling by 25 million euros to 707 million euros at the end of the year, with associated hedges of approximately 68% of this balance.

The average payment time to suppliers during 2020 was 21 days, below the maximum legal period of 30 days established in Law 15/2010, dated 5 July, which sets out measures to combat late payment in commercial transactions, amended by Law 31/2014, dated 3 December, which amends the Law on Capital Companies to improve corporate governance, and taking into account the Single Additional Provision of the Resolution, dated 29 January 2016, by the Institute of Accountants and Auditors. The average payment period has been calculated in accordance with said law.

Law 11/2018, dated 28 December, on non-financial information and diversity regulates the disclosure of information regarding these two aspects. Laboral Kutxa, 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 Laboral Kutxa Group that responds to the obligations contained in the above-mentioned regulations and which will be deposited in the Mercantile Register of Gipuzkoa. This document is also the Group's annual Sustainability Report (CSR), in accordance with the international GRI standard.

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 **2020**

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 by AENOR.

LABORAL kutxa

INDEX

0. Letter

A year ago now, when writing this foreword to the previous Sustainability Report, little could we have imagined that 2020 would unfold as it has. Despite news from Asia about COVID 19, a few weeks later we found ourselves facing a completely unexpected scenario unlike anything we had experienced before. A health crisis with major social and economic consequences.

Indeed, the pandemic has posed a huge challenge to us as a society and as a cooperative. In just a few days we had to take measures to protect the health of our workforce, our customers and our suppliers, while ensuring business continuity and maintaining basic financial service. All of this has involved a very important personal, organisational and adaptation effort for all the people who make up the LABORAL Kutxa Group. From the outset, the objective of the committee set up for this purpose, the Coronavirus Committee, has been to govern the management of this crisis putting people's health first and guaranteeing the continuity of the activity. The entire organisation has been committed to continuing to serve customers and to provide financial solutions to businesses and families to enable them to cope with this unprecedented situation.

The health crisis has also resulted in an economic crisis that is affecting many sectors of activity. As a result, we have reviewed and adjusted our projected profit targets for the coming years, following a prudent approach to ensure our financial strength. At the same time, we have made a special effort to make allocations and provisions in order to be prepared for the foreseeable negative consequences for the business fabric of the abrupt economic slowdown.

We commented in these same lines last year that the financial sector is currently facing many challenges for the future. Challenges such as digitalisation or the historically low interest rate environment have been forcefully joined by the need to transform the economic system towards a more sustainable model. Both society and regulators are demanding that financial institutions resolutely include ESG criteria, i.e., environmental, social and corporate governance criteria, in their operations. The future is not only being built on innovation, screens and algorithms, but also on a business model that is aware of its impacts and committed to society and the environment. This trend has not only not slowed down, but has been reinforced as an effect of the COVID crisis19.

LABORAL Kutxa is no stranger to this need. As a credit cooperative born to contribute to the progress of our society and to fight inequality, we understand wealth and development as aspects that are not exclusively measurable in economic or GDP terms. Since our origins more than 60 years ago, we have been aware that an important part of our social legitimacy as a company is based on being aware of how our decisions affect the present and future of our towns and cities, from an economic, social and environmental point of view.

That is why in 2020 we have embarked on a reflection to develop a sustainable finance strategy. With this reflection, we seek to organise all the initiatives we have been carrying out in the past, to give them renewed impetus and to launch new transformative projects. In 2021, the design of this strategy will be completed and the first actions derived from it will be implemented, such as the analysis of the impact of climate change on our credit portfolio or the development of a line of green finance products.

From an environmental point of view, in 2020 LABORAL Kutxa has made a significant leap forward in its contribution as a company to achieving the Paris Agreements to reduce greenhouse gas emissions. All the electricity we consume now comes from renewable sources, which has resulted in an 83% reduction compared to the previous year in our carbon footprint, the cause of global warming.

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 shown on its corporate website as ***a solid and responsible model of cooperative and participative banking.*** *"LABORAL Kutxa represents a different way of banking, based on cooperation and commitment to our society. Our main objective is the satisfaction of each client and the generation of wealth and employment in our environment. We are a Cooperative Bank, guided by values and a philosophy that lead us to prioritise the common interest over the individual, to make decisions in a participative and responsible way and to reinvest our profits in society."*

It is a credit cooperative in which the majority of the capital is held by the cooperatives of the MONDRAGÓN group and by working or retired members (collaborative partners).

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.

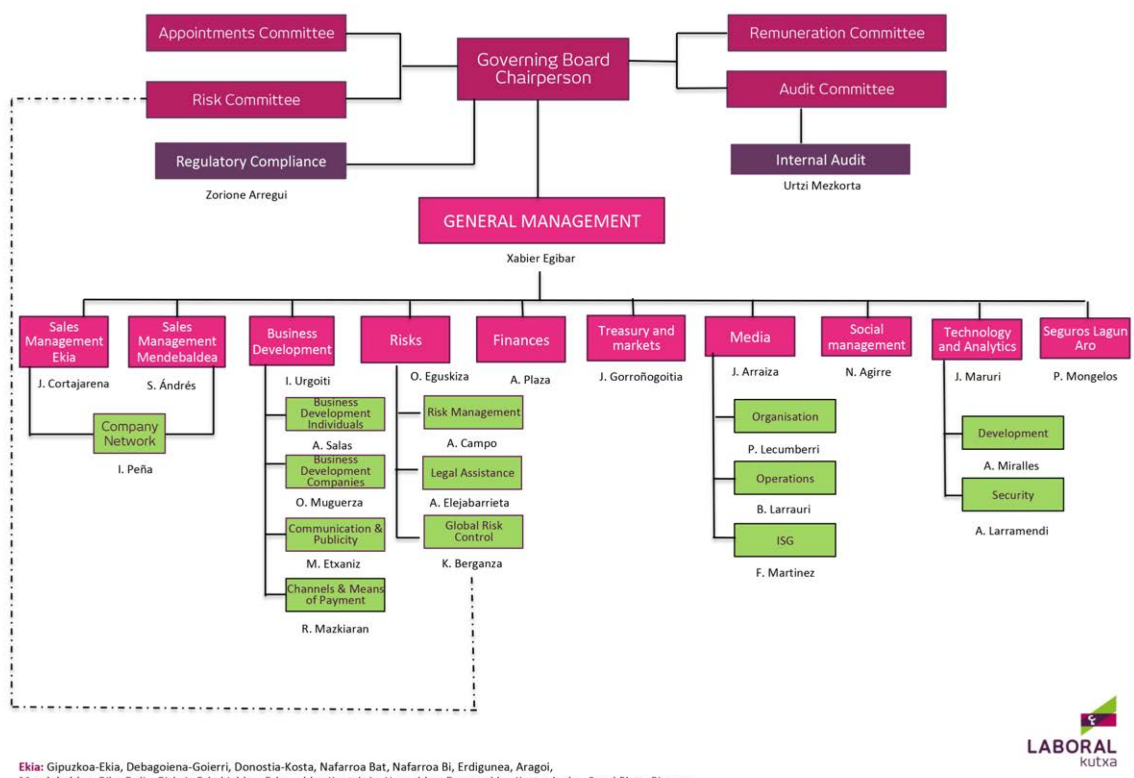
The investee companies that make up the LABORAL Kutxa Group:

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 Via 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

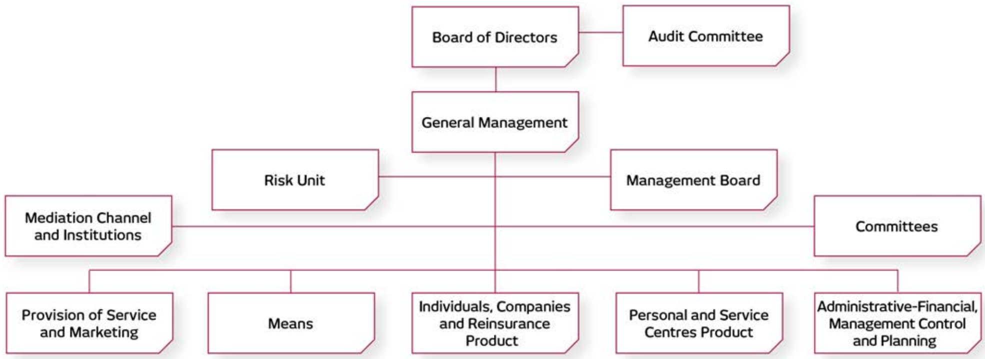
The structure as at 31/12/2018 is organised into functional Divisions, which in turn are divided into the various Departments, Sections, Areas and Network of offices.

2020 Laboral Kutxa · Organisational chart



Ekia: Gipuzkoa-Ekia, Debagoiena-Goierri, Donostia-Kosta, Nafarroa Bat, Nafarroa Bi, Erdigunea, Aragoi,
Mendebaldea: Bibo Erdia, Bizkaia Eskubialdea, Ezkerraldea Kantabria, Hegoaldea, Durangaldea Kosta, Araba, Canal Plata, Pisuerga

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.

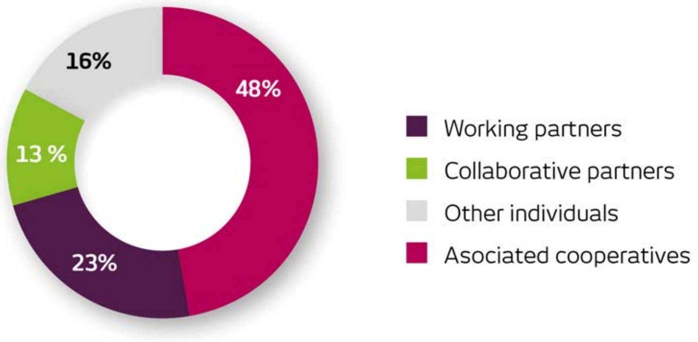
VALUES

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.

SHARE CAPITAL AT 31/12/2020

777.9 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 of the aforementioned Internal Code of Conduct to Regulation 596/2014 was approved, and the CNMV was informed accordingly.
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 2020 and 2019, there have been no enquiries or complaints.

The Group's insurance companies, Seguros Lagun Aro and Seguros Lagun Aro Vida, although for legal reasons having a legal status as a joint-stock company and not as a cooperative company, share the cooperative values and the various management practices and policies.

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:

- putting its guiding principles into practice at all levels of its activities,
- designing products and services that meet the real needs of consumers,

- ensuring that policyholders and groups of interest are actively involved in the life of the company, either directly or through their representatives,
- combining the balance between financial aspects 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 2020, 15 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			
Provinces	**Individuals**	**Companies**	**Mediation**
Bizkaia	80	2	1
Gipuzkoa	64	1	1
Navarra	37	1	1
Araba	29	1	1
Zaragoza	16	1	1
Valladolid	12	1	1
Madrid	9	-	-
Asturias	8	-	1
Burgos	8	-	-
Salamanca	6	-	-
La Rioja	5	-	1
Cantabria	4	-	-
Leon	3	-	-
Palencia	2	-	-
Barcelona	1	-	1
Huesca	1	-	-
Zamora	1	-	-
Valencia	-	-	1
Total no. of offices	**286**	**8**	**9**

1.6. Key figures of the Group

Item	2019	2020
Total assets (Mll)	25,058	27,904
Own Funds (Mll)	1,764	1,835
Customer deposits (Mll)	21,425	22,984
Credit to customers (Mll)	13,973	14,459
Offices	304	301
ATMs	538	538
Interest Margin (Mll)	249.9	254.6
Gross Margin (Mll)	395	402.6
Administration Costs (Mll)	218.9	210
Profit after tax (Mll)	127.4	79.7

The distribution of wealth generated by the **Group** is shown in the following table:

Item (thousands of €).	2019	2020
1. Directly generated financial value	**401,806**	**420,094**
Gross Margin (before other operating charges)	399,130	417,729
Profits on Sale of Material and Awarded Assets	2,676	2,365
2. Distributed financial value	**284,975**	**258,559**
Payment to supplier companies (Operating costs)	104,733	108,842
- other general administrative costs.	70,979	63,646
- other operating charges	33,754	45,196
Staff costs	108,406	109,621
Income tax	11,689	10,934
Interest on capital	34,316	9,783
Investment / Donations to the community	25,831	19,379
Development and Education Fund (FEP)	10,332	7,751
Intercooperative Social Fund (FSI)	15,498	11,627
3. Financial value retained (1-2)	**116,831**	**161,535**

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 recorded a profit, included in the Group's consolidated profit and loss account, of € 2.7 million.

Item (thousands of €). Management of real estate assets	2019	2020
Revenue (Sales)	45,286	46,102
Operating costs	4,274	3,270
Staff costs	0	0
Financial costs for interest and dividends	388	78
Gross tax	2,085	1,607

Regarding CLBS, the key financial figures, included in the consolidated results, are:

Item (thousands of €). CLBS	2019	2020
Turnover (commissions)	41,400	42,449
Staff Costs	10,270	8,122
Total Costs	37,911	38,579
Pre-tax profit	3,490	3,865

The objective of the real estate asset management companies in 2019 has been the purchase or award of real estate assets from third party developers in payment of debt to LABORAL Kutxa and the divestment of all the assets owned, both finished product (homes, garages, premises, etc.) and through the completion of the works in progress for the sale of the final product and the sale of the land or its management for its transformation into housing, through the undertaking of self-development and building.

In 2020, through the company ISGA, work has been carried out on 14 real estate projects involving the construction of 713 homes, of which 6 projects have been completed, meaning the completion of 165 homes.

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.

Taxation

LABORAL Kutxa exercises its tax obligations in the territories in which it carries out its activity, specifically in the four foral territories and in common territory, thus contributing to the support of public services and the progress of Society.

The company's tax strategy is consistent with the long-standing principle of prudence applied in all areas of management.

As part of its Financial Information Internal Control System, Laboral Kutxa has a Tax and Legal Management Procedure. This internal document, approved by the Governing Board, defines the areas of the organisation responsible for the management of the different taxes, the different actions to be undertaken by each of them in this respect, as well as the controls defined to ensure the correct execution of the procedure. This procedure is periodically reviewed by Internal Audit.

The tax information is reported in the annual accounts in an explanatory note containing the reconciliation between the accounting result and the tax base for corporate income tax purposes. This information, together with the other financial information, is subject to an annual external audit.

Taxes and duties (thousands of €) LABORAL Kutxa	**2019**	**2020**
Corporate income tax	11,689	10,934
Taxes (Property Tax, Self-employed income tax, etc.)	7,451	10,108 (1)
V.A.T.	7.6201	12,564
Total	**26,760**	**33,606**
Taxes and duties (thousands of €) Lagun Aro	**2019**	**2020**
Corporate income tax	1,904	1,782
Taxes (Property Tax, Self-employed income tax, etc.)	89	92
Total	**1,993**	**1,874**

(1) In 2020, the deposit tax and the DTAs capital allowance have been included.

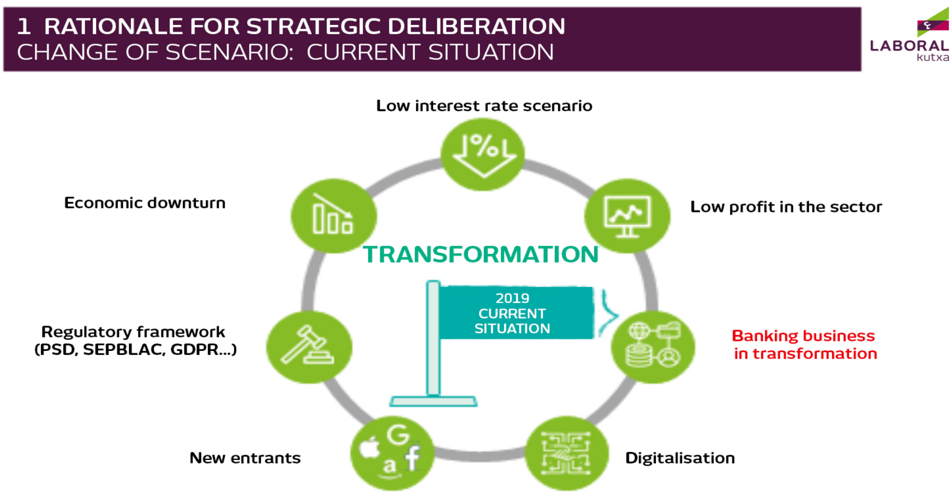
The Public Administration does not form part of the capital nor does it have any representation on the governing bodies of LABORAL Kutxa. The financial support received from the Administration is as follows:

Item (thousands of euros)	2019	2020
Subsidies (aid for employment, training and energy investments)	308	226
Item (thousands of euros)	**2019**	**2020**
Subsidies Lagun Aro (Euskera)	11	22

1.7. Strategy and risk management

During 2019, it carried out the strategic reflection that has led to the drafting 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.

This was the first strategic reflection carried out from a cross-Group perspective, including the insurance companies. It was a process led by the Board of Directors, with the participation of different levels of the cooperative, from departmental managers to section heads and staff from the commercial network. It was carried out with the support of Deloitte and, once completed, was approved by the Governing Board.



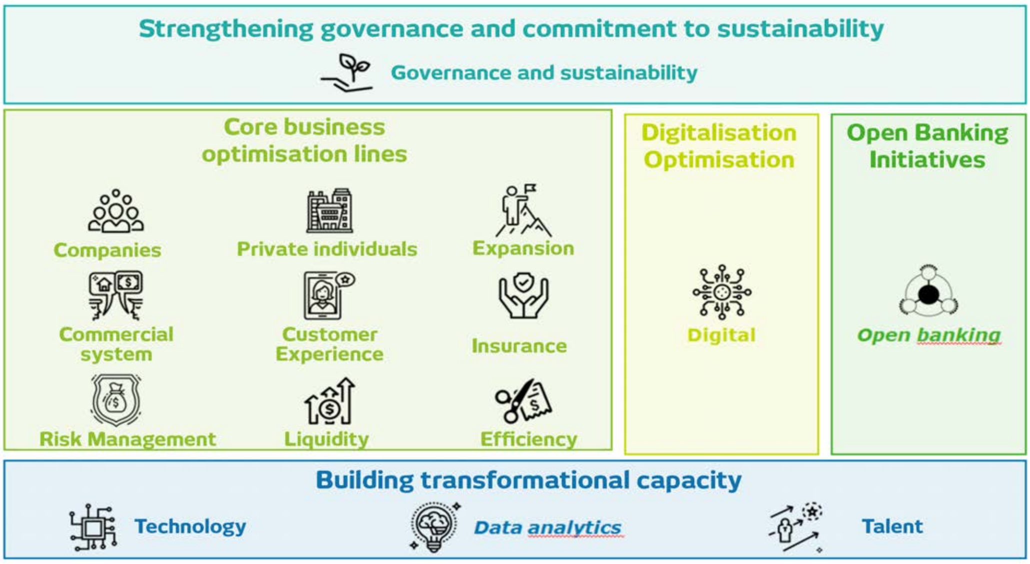
The following ambition was defined:
Transformation of the entity in order to ensure its competitiveness and future sustainability in a complex market environment by means of a differentiating approach.

The main lines of action that emerged from the strategic reflection were:

- **Profitability - income statement.** Sustaining current levels of profit generation will be the main objective. 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 geared towards increasing market shares by increasing the dynamics of commercial activity.

- **The insurance business.** Opportunities and competitive differentials should be exploited to drive growth.
- **Risk Policy.** Review of the current risk appetite framework and risk policies.
- **Treasury and capital markets.** The strategy for investing surplus liquidity will be deployed with a prudent approach.

The development of the Strategic Plan for the financial years 2020 - 2022 is based on five major blocks comprising 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 were materialised for the first time in this Strategic Plan as a cross-cutting element covering all the programmes it comprises. 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 are aligned with the *Sustainable Development Goals* (SDG) and the 2030 Agenda.

Sustainability Plan

For the first time, Laboral Kutxa is going to set sustainability objectives to accompany the commercial and business initiatives of the Strategic Plan

Strategy

1. Incorporate sustainability objectives in the entity's strategy

Environment

2. Reduce paper consumption, the main resource used in our activity, by 30%

3. Reduce CO2 emissions from LABORAL Kutxa as a whole by 75%, thereby minimising our Carbon Footprint

Product

4. Apply Socially Responsible Investment (SRI) criteria in 100% of our managed assets, insurance companies, Treasury and risk allocation

5. Establish special products or lines for financing sustainable or efficient consumption and economy (green financing)

Equality

6. By the end of the period, women will occupy at least a third of the management positions at LABORAL Kutxa.

7. The difference between the average work index of men and that of women, including seniority, will be less than 10%

Society

8. Allocate €75 million (accumulated) of our profits to society.

9. Promote the self-employment of 2,000 people by supporting the realisation of 1,200 business ideas, from start-up, financing and business plan through to consolidation, through the Gaztenpresa Foundation.

Suppliers

10. 40% of the total volume of purchases from supplier companies will be with local companies

Section 2.2 Commitments and achievements provides an overview of the status of these objectives at the end of 2020.

In 2020, the annual review of the Plan was carried out in accordance with the following process:
Review of the validity of the Strategic Plan by the Board of Directors:

- Analysis of the environmental situation, with special attention to the macroeconomic impact of the crisis caused by the pandemic.
- Analysis of the qualitative impacts and period of confinement, focusing on new customer behaviour.
- Review of the entity's competitive position: market shares, brand image and quality of service.

The main conclusions ratified by the Governing Council were:

1. Confirmation of the business priorities identified in the Strategic Plan, adjusting the ambition in volumes and specifying the types of companies on which to focus efforts.
2. Review of the business model: Office typologies, new physical design and right sizing.
3. In-depth review of administrative expenses: reduction to compensate for the foreseeable drop in profits.
4. Review of the profit and loss path over the horizon of the Strategic Plan based on the necessary coverage derived from the estimates of non-payment.
5. Confirmation of the need and timeliness of continuing to address the transformation programmes set out in the Strategic Plan.

It should be noted that within this review, the "Sustainable Finance in LK" project has been established as a priority transformation project. The objective of this project is to propose a strategy with respect to sustainability and the new regulatory requirements in this area, as well as an analysis of its impacts, risks and opportunities for the business.

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 management staff (members of the Board of Directors) are natives of the areas where the Entity operates.

In terms of corporate Governance, the progress made in 2020 was as follows:

- As every year, a report was drawn up on the evaluation of the structure, size, composition and performance of the Governing Board in the last year.
- On the occasion of the renewal of the Governing Board, reports have been prepared on the profiles needed to fill the vacant positions on the Governing Board.
- The manual regulating the procedure for the selection and evaluation of the suitability of board members and function holders has been updated, establishing a specific protocol for the management of personal data.
- 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.
- As a result of the implementation of the 2020-2022 Strategic Plan, the Security organisational unit has been configured as a new Department with three priority areas of action: physical security, fraud and cybersecurity.

In March 2020, all members of the Governing Board obtained certification in Good Corporate Governance, issued by the IC-A (Institute of Directors and Administrators).

At the end of the year, some of the members of the Governing Board undertook extensive training in Sustainable Finance.

In July 2020, the General Assembly approved a series of changes to the Articles of Association, among which the composition of the Governing Board was increased from 12 to 15 members and the term of office was increased from four to five years. The new composition will improve the specialisation and diversity of the body, while the longer term of office means that renewals will be more staggered and orderly, affecting fewer directors and thus benefiting for a longer period from the knowledge and experience acquired by the directors during their term of office. At year-end, the registration of these last three directors in the register of senior officers of the Bank of Spain was pending.

The Entity meets the requirements regarding *diversity* policies in compliance with the guidelines and regulations on the assessment of the suitability of the members of the governing body and the holders of key functions, considering aspects such as academic profile, professional profile, gender and age in the Policy for the Selection of Candidates for the Governing Board and in the assessment and suitability processes.

It should be noted that, as at 31 December 2020, the minimum percentage established for the under-represented gender is exceeded in the composition of the Governing Board, the cooperative's highest administrative body.

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.

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			
	2019		2020		2019		2020	
	M	W	M	W	M	W	M	W
Governing Board	1	4	1	4	5	2	5	2
Auditors	1	0	0	1	1	1	1	1
Resources Committee	9	3	8	4	-	-	-	-
Operations Committee	0	3	0	3	2	0	2	0
Audit Committee	0	1	0	1	2	1	2	1
Appointments Committee	1	1	1	1	2	1	2	1
Social Council	10	10	6	7	2	1	4	2
Board of Directors	3	1	2	1	3	1	7	1
Risks Committee	0	3	0	3	2	1	2	1
Remuneration Committee	1	1	1	1	2	1	2	1
Executive Board –Seguros Lagun Aro	2	0	2	1	2	1	2	0
Board of Directors – Seguros Lagun Aro	0	1	0	1	5	1	5	1

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. It is not of an executive nature.	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 Com.	Consultative body on Occupational Risk Prevention.	1996
Hizkuntza Batzordea	Committee for linguistic standardisation.	2000
Environmental Com.	Environmental System Management.	2001
Money Laundering Prevention Committee	Control and communication body for the Prevention of Money Laundering.	2003
CSR Committee	A Board of Directors' delegated body dealing with CSR and with the presence of members from the various Divisions 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
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
Data Committee	Sets the Entity's Data Strategy and performs the CDO functions and sets the strategic lines to be followed in data analytics.	2020

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.

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.

Seguros Lagun Aro has a written policy of "Adequacy of key positions" approved by the Board of Directors, the aim of which is to guarantee that all the people who manage Seguros Lagun Aro meet the requirements of aptitude and honourability specified by the regulations (article 38 LOSSP). This policy applies to the Entity's management and governing bodies as well as to those responsible for the key functions of the governance system: risk management function, internal audit function, actuarial function and regulatory compliance function.

The Board of Directors adopts a code of good practices, which describes the ethical principles of Seguros LagunAro. These practices are also adopted by the audit and anti-money laundering and terrorist financing committees. These good conduct practices are developed in all areas of the Company.

The risk management system at Seguros Lagun Aro is a comprehensive system comprising the strategies, processes and information procedures necessary to identify, measure, monitor, manage and continuously report the risks to which the Entity is exposed, and thus minimise the possible negative impacts, making optimum use of the economic-financial resources available, adapting the whole system to the risk profile established by the Board of Directors.

In order to simplify the application of the risk management system, Seguros Lagun Aro has set up an independent risk function whose tasks include leading the internal assessment of the Entity's risks and solvency, a fundamental process of the Entity's risk system. There is also a "Risk Management Policy" in force, approved by the Board of Directors, which defines the scope and objectives of the risk management system, identifying those that are the object thereof. The risk categorisation carried out by Seguros Lagun Aro is based on the best practices of the insurance sector in line with the requirements and recommendations established by the regulatory standards.

The "Risk Management Policy" specifies, among others, the main tasks and functions of the risk management division as well as those ultimately responsible for this system. It should be noted that at Seguros Lagun Aro the risk management system is integrated into the organisational structure of the company and in the Entity's decision-making process, taking due account of the people who manage it and exercise the main functions of the governance system. Under the principle of segregation of duties, responsibility for the risk management system lies with the risk management unit, technical product management, investment management and the reinsurance division, with the internal audit division being responsible for its independent review. Senior management, represented by the Board of Directors and the Management Committee, is ultimately responsible for the system.

The entity has different functions:

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

During the first few months of 2020, the members of the governing body of Laboral Kutxa, the Governing Council and the Board of Directors, took part in a professional development programme, specifically the IC-A Certificate in Good Corporate Governance.

This is comprehensive training in Good Corporate Governance in Financial Institutions, designed to meet the needs and requirements of LABORAL Kutxa. This training offers the members of the Governing Board and Management an updated global vision and training in Corporate Governance. It also provides knowledge of the most relevant aspects required in the governance of financial institutions by national and EU supervisors.

The IC-A Certificate in Good Governance is made up of 4 modules and lasted a total of 7 full days (total 56 hours).

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 (16 people in 2020 and 14 in 2019).

LK Item (thousands of euros)	2019	2020
Total pay for their work	1,534	1,822
Capitalised cooperative returns + Contribution interest	243	217
Total	1,777	2,039
Average pay per person	126.9	127.4

Regarding the remuneration of the Board of Directors of Lagun Aro

Lagun Aro Item (thousands of euros)	2019	2020
Total pay for their work	458	471
Capitalised cooperative returns + Contribution interest	3.9	5
Total	461.9	476
Average pay per person *	92.38	95.2

* 3 men and 2 women in 2020 and 3 men and 2 women in 2019.

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.

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 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".

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 behaviour in the Entity, resolving queries on the subject and dealing with complaints received in the Complaints Channel.

Business units analysed

Below are the business units of LABORAL Kutxa that have been analysed with respect to risks related to corruption:

	2019		2020	
	Actual	Target	Actual	Target
Total no. of offices analysed	93	88	96	92
% Offices analysed	31%	29%	32%	31%

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 regard to measures taken in response to incidents of corruption, there have been no cases in 2020.
In 2020, a reassessment of criminal risks has been carried out, as well as an analysis of the criminal prevention system with the collaboration of an external consultancy.

During 2020, the internal control and communications procedures and bodies were subject to an annual review by an external expert, PB Consultores S.L., with an assessment of the operational effectiveness of the procedures and bodies in the prevention of money laundering of "Very Good" and a higher score than in the previous year. Below are the actions that were carried out during the past year:

Actions undertaken in 2020
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 True Holder declaration form to be requested from customers has been improved by incorporating information on the ownership or control structure.
The cash deposit transaction has been improved to request information from the customer on the origin of the funds.
Guidelines have been approved for assessing the Country Risk and Activity Risk of customers.
The procedure for filtering customers with public lists of penalised persons has been improved.
The Remediation Plan has been updated to address deficiencies in the Formal Identification of customers.
All staff have been invited to take part in digital AML/CFT training

The Money Laundering Prevention Unit has sent 19 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.

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.

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 16/03/2020.

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.

1.13. 22 Regulatory Compliance

The Regulatory Compliance Department includes, within its management scope, the detection of transactions suspected of market abuse. In 2020, the IT application registered 1,403 alarms, a significantly higher number than in other years due to the increase in trading as a result of the high volatility and market situation caused by Covid-19. However, all the alarms, once analysed, were not classified as suspicious transactions of market abuse, so no cases were reported to the CNMV in 2020.

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.
Section 3.1 "Our relationship with customers" details our achievements in these areas, including an effort at transparency in relation to the solution of problematic situations with a significant social impact, such as the *over-indebtedness* of customers for the purchase of housing or the demands for the invalidity of *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.

In 2019 LABORAL Kutxa was one of the founding signatories 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 in 2020, according to the commitments made by LABORAL Kutxa in its previous CSR reports, as well as the objectives for 2021. 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
2020 core projects and actions and those pending from previous years			
Strengthen solvency and liquidity	**Ongoing**	Strategic priority	Medium-high P and C
Using digitalisation to reduce paper consumption and boost the multi-channel relationship	**Partially Completed.**	Digitalisation strategic focus	Medium-high S and M
Development of digital skills for Staff	**Ongoing**	Strategic focus 2018 digital skills	Medium-high P
Maintain positions of excellence in the management of customer relations	**Ongoing**	Integrated Quality Process	Medium-high C
Continue to expand the coverage of Socially Responsible Investment	**Partially Completed**	Specific team	Medium C and S
Green MiFID	**Postponed to 2021**	2019 Management Plan	Medium C and M
Development of management systems that promote a constructive and collaborative culture, with self-reliance and continuous learning	**Ongoing**	Culture and values strategic focus 2019	Medium-high P
Implement a Recognition System for people.	**Postponed**	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-high C and P
Support for creating and consolidating companies through MONDRAGON	**Ongoing**	Funds through FSI and FEP 2019	Medium S and C
Substitute electricity supply with one exclusively from renewable sources.	**Completed**	Environment Committee	Medium M
Conduct an impact analysis of the direct and transitional risks of climate change.	**Initiated, progress in 2021**	CSR Committee	Medium-high S and M
Implement sustainable mobility measures for the workforce.	**Initiated, deployment in 2021**	Environment Committee	Medium M and P
Status of the 2020-2022 strategic objectives			
Incorporate sustainability objectives in the entity's strategy	**Completed**	C Address	Medium S, C, M and P
By the end of the period, women will occupy at least one third of LABORAL Kutxa's management positions	**Achieved in 2020**	Equality Committee	Medium P and S
The difference between the average employment rate of men and women, including seniority, shall be less than 10%	**12.71% in 2020**	Equality Committee	Medium P and S
Reduce CO2 emissions into the atmosphere by 75% for LABORAL Kutxa as a whole, thus minimising the Carbon Footprint	**Exceeded in 2020 (83%)**	Environment Committee	Medium M
Apply Socially Responsible Investment (SRI) criteria to 100% of the assets managed by the Management Company, Treasury and in	**Started**	Business development Treasury	Medium-high C, S and M

the granting of risks		Manager Risks	
30% reduction in paper consumption, the main resource used in our activity	**-18.5% in 2020**	Environment Committee	Medium M
Promote the self-employment of 2,000 people by supporting the materialisation of 1,200 business ideas, from start-up, financing and business plan to consolidation.	**Annual target 400 not reached due to COVID**	Gaztenpresa Foundation	Medium-high S and C
Development of a green financing product	**Postponed to 2021**	Business development	Medium M and C
Allocate €75 million (cumulative) of our profits to society	**Annual target 25 MII not reached due to COVID**	C Address	Medium-high S
40% of the total volume of purchases from our suppliers will be from local companies.	**Achieved in 2020 (41.1%)**	CSR Committee	Medium Sup and S
Actions in the field of CSR. Core projects and actions for 2021			
Implement a sustainable finance strategy. To this end, carry out a situation analysis, design a roadmap and start its implementation.	Integrate sustainability in all areas of the entity.	Management CSR Committee	High C, S, M
Obtain ISO 45001 certification for the occupational risk prevention system.	Make progress in the concept of a healthy company.	Health and Safety Committee	Medium P, S
Comply with the non-financial information disclosure requirements of Regulation 2088/2019.	Integrate ESG aspects into fund management and advice	Business development Manager	High C, M and S
Apply the new psychosocial RA methodology.	Make progress in the concept of a healthy company.	Health and Safety Committee	Medium P
Develop the outsourcing project	Organise the management of outsourcing	Organisation	Medium Sup
Continuous improvement of cyber security	Comprehensive security strategy	Security	High C

2.3. CSR Roadmap

As a result of the reflection and consultation with stakeholders (see materiality analysis), the CSR Roadmap has been defined, which includes the risks and opportunities identified as the most important, and is the reference that LABORAL Kutxa uses to prioritise its activities related to Sustainability.

	Prioritisation of areas for action	G. interest / scope
1	Protection of privacy and the security of data and operations	Customers
2	Resp. management: clear and transparent explanation of prods, avoidance of over-indebtedness, over-insurance or under-insurance,...	Customers
3	Strengthen LABORAL Kutxa's financial solidity, risk management and liquidity.	Economic
4	Development of digitalisation (electronic banking, mobile banking, digital claims, etc.), providing customers with personalised and remote management of their accounts and insurance.	Client/Environm.
5	Supporting society and the economy in times of crisis.	Company
6	CSR and control measures: code of ethics, anti-corruption, anti-money laundering, arms financing control, gambling, pornography,...	Company
7	Contribution to the economic and financial development of the business fabric: financing agreements for companies, support for entrepreneurs...	Customers/Society
8	Excellence in quality of service: friendliness, speed of service and simplicity in operations, minimising errors,...	Customers
9	Protect the health of our staff, our customers and society as a whole.	Clientele/People
10	Promotion of equality between women and men.	Society/People
11	Sustainable management with our suppliers: local suppliers, not delaying payments and taking into account responsible purchasing criteria in addition to price.	Suppliers/Society
12	Fair balance between costs/interest/premiums charged and products/services/performance given in return.	Customers
13	Support MONDRAGON's co-operatives, research and education centres, and the rest of the social economy.	Company
14	Management of our workforce: work-life balance, salary levels and ranges, healthy company, etc...	People
15	Socially and environmentally responsible products and services.	Client/Soc/Environ
16	Environmental management: reduction of greenhouse gas emissions (carbon footprint), reduction of 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	2019	2020
Profit after tax (€M)	127,364	79,685
Efficiency Index (%) (1)	61.00	57.79
Customer deposits (€M)	21,425	22,984
Customer credit (€M)	13,973	14,459
Solvency (%) (2)	20.17	21.26
Special Funds (€M)	954	931
% Doubtful Risks / Investment	3.54	3.15

(1) Efficiency Index: Administrative Expenses + Depreciation/Gross Margin.

(2) Total capital ratio (CET1) is used.

Social performance indicators:

Aspect / Indicator	2019	2020
People		
Number of people active (LK + CLBS)	2,074	2082
Training		
Training hours / total workforce	81.38	77.2
Training evaluation (1-10)	7.91	8.13
Health and Safety		
Absenteeism in %	3.80	4.23
Professional development		
Average employment index	2.36	2.37
Promotion: Increase in Structural Index	7.09	8.1

Aspect / Indicator	2019			2020		
	Women	Men	%	Women	Men	%
Employment dynamics						
Rate of departures / turnover	6.70%	6.76%	7.09%	4.49%	1.41%	2.95%
Equality						
% Women members	49.54%			50.72%		
% Women managers / total managers	31.97%			34.5%		

No targets are set with regard to employment dynamics and % of women members. Nor is it broken down by region due to the reduced geographical scope.

Aspect / Indicator	2019	2020
Contribution. Funds (FEP and FSI) (thousand €)	23,437	9,653
Taxes paid (thousand €)	26,760	33,606
Gaztenpresa companies created	405	256

Environmental performance indicators:

Consumption of:	2019	2020
Advertising paper: Kg / Client	0.116	0.089
Internal paper (Kg / Client)	0.251	0.206
Water in m^3	10,898	5,696 (2)
Electricity (Kwh)	12,915,786	11,505,454
Toner: Kgs. consumed	2,602	2,269
Diesel in litres	581	621
Kg waste managed (1)	162,283	199,418

(1) The objective is to manage 100% of the waste. Its volume depends each year on different circumstances.
(2) Data for the first 3 quarters. In 2019, 8,394 for the same period.

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, 2019 and 2020, the methodology and the questionnaire have been revised, 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): 65 companies, 623 self-employed and micro-companies, 118 personal banking customers and 706 KIDE/Top customers (associated), a total of **1,512**, both LABORAL Kutxa and Lagun Aro customers.
- 20 supplier companies (annual consultation),
- 51 employees (members, temporary workers and CLBS; annual consultation),
- 14 responses from managers of Mondragon Group cooperatives, therefore both owners and customers.
- One consultation carried out with members of the Board of Directors and the Governing Council. 12 responses.

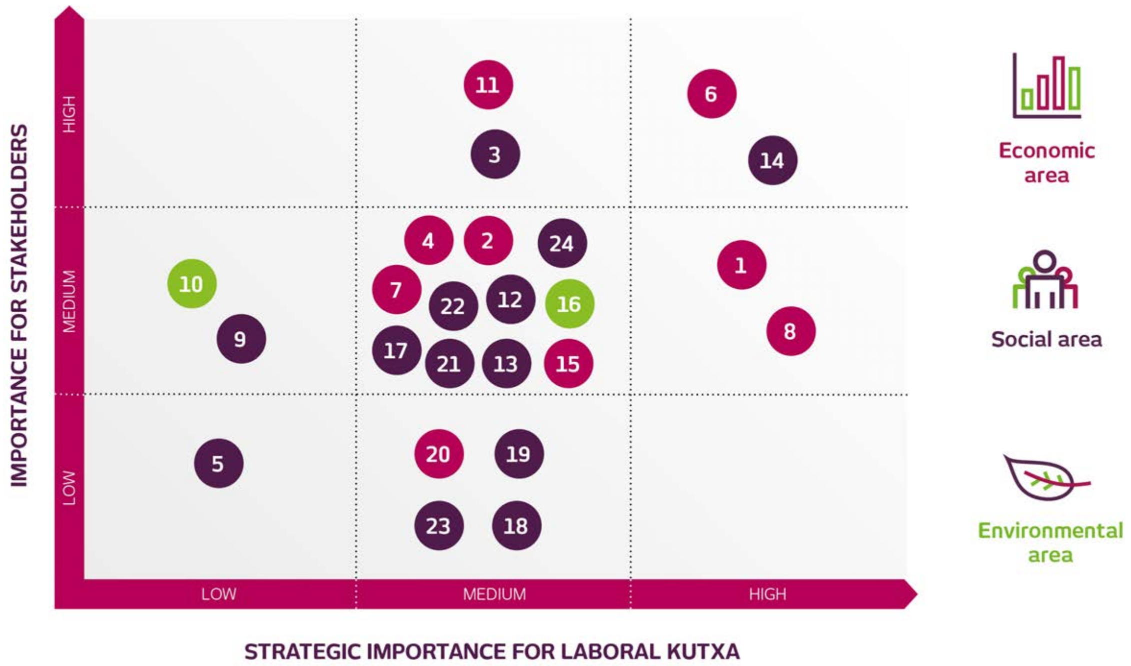
The evolution over time of the materiality analyses reveals this:

- It highlights the alignment between the prioritisation of the stakeholders and that of LABORAL Kutxa. 58% of the aspects assessed 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.
- Two issues consulted for the first time join the group of high ratings, no doubt due to the timing of the survey (COVID crisis). These are supporting society in times of crisis and protecting people's health.

Materiality matrix 2020

Mater.	Aspect
HIGH	14-Protection of privacy and the security of data and operations.
	6-Responsible management towards the customer: clear and transparent explanation of products, avoidance of over-indebtedness, over-insurance or under-insurance,...
MEDIUM-HIGH	1-Strengthen LABORAL Kutxa's financial solidity, risk management and liquidity.
	8-Development of digitalisation (electronic banking, mobile banking, digital claims, etc.), providing customers with personalised and remote management of their accounts and insurance.
	3-Supporting society and the economy in times of crisis.
	11-CSR and control measures: code of ethics, anti-corruption, anti-money laundering, arms financing control, gambling, pornography,...
MEDIUM	4-Contribution to the economic and financial development of the business fabric: financing agreements for companies, support for entrepreneurs...
	7-Excellence in quality of service: friendliness, speed of service and simplicity in operations, minimising errors,...
	24-Protect the health of our staff, our customers and society as a whole.
	17-Promotion of equality between women and men.
	22-Sustainable management with our suppliers: local suppliers, not delaying payments and taking into account responsible purchasing criteria in addition to price.
	15-Fair balance between costs/interest/premiums charged and products/services/performance given in return.
	2-Support MONDRAGON's co-operatives, research and education centres, and the rest of the social economy.
	13-Management of our workforce: work-life balance, salary levels and ranges, healthy company, etc...
	12-Socially and environmentally responsible products and services.
	16-Environmental management: reduction of greenhouse gas emissions (carbon footprint), reduction of consumption and waste, selective collection,...
	21-Control of the responsible activity of our suppliers: working conditions, occupational hazards, payments and obligations to Public Administrations...

MEDIUM-LOW	18-Social Action: sponsorship, contributions to NGOs, social activities, development cooperation, etc.
	23-Adherence to and support for initiatives such as the Sustainable Development Goals (SDGs) and the United Nations Principles for Responsible Banking.
	20-Flexibility in the recovery and refinancing of bad debts.
	10-Support and promote the transition towards a green and sustainable economy.
	19-Promote the Basque language and culture, as well as encourage the use of the Basque language in internal relations and with customers.
	9-Maintain face-to-face attention and service in branches, especially for groups at risk of financial exclusion.
LOW	5-Collaborate with the financial and insurance education of customers and society.



2.6. United Nations Principles for Responsible Banking 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, this statement has been supplemented by the progress made on the Sustainable Development Goals (SDGs) and in 2019 on the United Nations Principles for Responsible Banking..

In the section Commitments and achievements in the second part of this Report, the main aspects on which LABORAL Kutxa has worked in 2020, the degree of progress they have made, as well as the strategic and specific objectives for 2021 are included. 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 set out in the Annual 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 IV Equality Plan - Berdintasuna.	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
Maintain positions of excellence in quality of service	Principle 1	Objective 8	Principles 3 and 6
Development of multi-channel customer relations, payment methods and direct marketing	Principle 9	Objectives 8, 9 and 12	Principle 3
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
Financial education plan.	Principle 1	Obj. 4, 12 and 17	Principles 1, 3 and 4
Renewal of EIF guarantee agreements for microcredits and innovative companies	Principle 1	Obj. 1, 5, 8, 9 and 10	Principles 1 and 3
Development of the digital competences of the workforce	Beginning	Objective 4	Principle 4
Implement Green MiFID	Principles: All	Objectives 13 and 15	Principles 2 and 3
Conduct an impact analysis of the direct and transitional risks of climate change.	Principles 7, 8 and 9	Objectives 13 and 14	Principle 2
Implement sustainable mobility measures for the workforce.	Principles 7, 8 and 9	Objectives 3 and 11	Principle 2
Comply with the non-financial information disclosure requirements of Regulation 2088/2019.	Principle 8	Objective 8	Principle 6
Apply the new psychosocial RA methodology.	Principle 1	Objective 3	Principle 4
Develop the outsourcing project	Principle 2 and 10	Objective 8	Principle 2
Continuous improvement of cyber security	Principle 10	Objectives 9 and 16	Principle 2
Incorporate sustainability goals in the strategy	Principles: All	Objectives: All	Principles 1 and 5
Minimum of one third of women in managerial positions	Principles 1 and 6	Objectives 5 and 16	Principles 1 and 4
The difference between the average employment rate of men and women, including seniority, shall be less than 10%	Principles 1 and 6	Objectives 5 and 16	Principles 1 and 4
Reduce Co2 emissions to the atmosphere by 75%	Principles 7, 8 and 9	Objectives 13 and 15	Principles 2 and 5
Apply Socially Responsible Investment (SRI) criteria to 100% of the assets managed by the Management Company, Treasury and in the granting of risks	Principles: All	Objectives: All	Principles: All
30% reduction in paper consumption.	Principles 7, 8 and 9	Obj. 6, 13 and 15	Principles 2 and 5
Promote the self-employment of 2,000 people by supporting the materialisation of 1,200 business ideas	Principles 1	Objectives 1, 8, 9 and 16	Principles 2 and 3
Development of a green financing product	Principles 7, 8 and 9	Objectives 13 and 15	Principles 2 and 3
Allocate €75 million (cumulative) of our profits to society	Principle 1	Objectives: All	Principles 2 and 4
40% of the total volume of purchases from our suppliers will be from local companies.	Principle 7	Objectives 8 and 12	Principles 2 and 4

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**: Deployment of the LK IV Equality Plan; Equality objectives of the Strategic Plan; Protocol against sexual harassment and gender-based harassment.
- **Obj. 8 Decent work and economic growth** : Gaztenpresa; Supplier management procedure; Outsourcing project; Zainduz Health Plan, Financial Education; Sustainable mobility; Psychosocial risk assessment.
- **Obj. 9 Industry, innovation and infrastructure** : Different improvements in digitalisation; PDSI-2; Support for Mondragon; Analysis of climate change risks and opportunities; Cybersecurity.
- **Obj. 10 Reduction of inequalities**: Green MiFID; Profit sharing in society; 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 of stakeholders

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		%
	2019	2020	
Araba	136,658	136,915	12%
Aragon, Catalonia and La Rioja	72.176	71,941	6%
Asturias and Cantabria	33,041	33,061	3%
Bizkaia	348,540	347,745	31%
Castille and Leon	125,397	124,124	11%
Gipuzkoa	260,435	259,053	23%
Madrid	18,968	19,244	2%
Navarra	119,848	119,764	11%
Headquarters	7.585	7,646	1%
Other*	-	17,597	2%
Total LABORAL Kutxa	**1,122,648**	**1,137,090**	**100%**
Private Customers (%)	87.14%	85.80%	
Autonomous Customers (%)	8.5%	8.33%	
Business Customers (%)	3.41%	3.36%	
Business Customers (%)	0.95%	0.97%	
Other*	-	1.55%	

*Non-profit associations and home-owners' associations that are not segmented. The 17,037 in 2019 were not taken into account.

3.1.3. Dialogue with the clientele

As in previous years, in 2020 an effort was made to maintain dialogue with customers in order to ascertain their expectations and demands regarding financial and insurance products in order to take further steps to improve them. 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 number of customer surveys has been very high:

- Internal Study: 27,186 surveys (Finance Office 17,260, Channels 6,020, Insurance 3,906)
- Stiga Study: Customer satisfaction: 16,100 (LK -400), Not clients (mystery): 3,681 (LK-85)

The results compared to other banking and insurance competitors are favourable. Some of the most representative are included in the following tables.

CAV 2020 brand image tracking (market %, current and potential clientele, who mention us as an outstanding entity in each attribute)	2019	2020
Local entity, committed to society and to local development	37%	39%
Entity close to its customers	30%	30%
Entity with honest and responsible management, which can be trusted	22%	20%
Responsible for the social and environmental impact of its actions	nd	14%

Source: Tracking study of the brand image of LABORAL Kutxa. The area is the Basque Country and Navarre. Ikerfel

Benchmarking Quality of Service in the banking sector 2020 (score from 0 to 10)	2019	Differential with sector. 2019	2020	Differential with sector. 2020
Attention to potential customers - Sectoral Objective Quality Study (EQUOS-Stiga)	7.75	0.39	8.36	0.72
Overall satisfaction with the entity	7.73	0.25	7.90	0.48
Valuation of relationship intangibles: Transparency, Trust and Personalisation	7.13	0.34	7.26	0.5
Valuation of brand intangibles: Solidity and Solvency, Modernity and Social Commitment	7.73	0.3	7.84	0.39

Outstanding sectoral position in referrals: NPS + 21.6%

NPS. Difference between % of customers with Intention to Recommend 9 or 10 and Intention to Recommend <= 6

	CAR		HOME	
Lagun Aro. Benchmarking quality of service in the insurance sector ICEA July 2020 **Satisfaction of insurance customers (score 1 to 10)**	jul-19	jul-20	jul-19	jul-20
Overall satisfaction with the company	8.28	8.06	7.38	7.42
Insurance Market	8.26	7.93	7.25	7.16

Source: Barometer study of the customer experience in the insurance sector ICEA

Outstanding sectoral position in referrals. Car NPS + 26.1% / Home NPS + 10.9%

NPS. Difference between % of customers with Intention to Recommend 9 or 10 and Intention to Recommend <= 6

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. Service activity increased by 44.29% compared to the previous year, mainly due to the higher number of complaints and claims related to mortgage loan arrangement costs.

The results of this Service are:

Customer Service	2019	2020
Number of cases opened	**6,563**	**9,470**
Written: brochure / letter	5,228	7,087
Internet/Telephone	972	1,894
Public bodies: OMIC / Regional Governments	341	398
Others	22	91

Following the preparation of the CSR Report 2019, as has become customary in recent years, a communication campaign was launched in which the Executive Summary of the Report was sent to the most closely associated 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 made: to business customers, to self-employed customers and micro-companies, to individual Personal Banking customers and to individual KIDE/TOP customers. A total of **350,412** customers, 34.14% of whom read the mail.

In total there were 1,512 responses. The main **results and conclusions** of this **dialogue** process are detailed below:

Questionnaire	No. of mailings	No. of replies	Assessment	
	2020	2020	2019	2020
Company customers	8,982	65	7.8	7.9
Self-employed and micro-businesses	84,957	623	7.6	8.3
Private individuals from Personal Banking	16,015	118	8.7	8.5
KIDE/TOP individual clients	240,458	706	8.2	8.3
Total/average	**350,412**	**1,512**	**8.1**	**8.3**

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 2020, we have continued the accreditation process in the Real Estate Credit Contracts Act (LCCI) for the remaining individuals who did not do so in the previous year (1,589 in 2019, 94% of the staff 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 2020, 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 €50,000, aimed at entrepreneurs. For an amount of € 130 million, it has been renewed until 2023.
    - InnovFin SME Guarantee Facility to facilitate innovation in SMEs and small and medium capitalisation companies. The last renewal was signed in 2019 for € 150 million and for two years.

- Specific EaSI programme for the promotion of social economy companies. Renewed in December 2020 for another 2 and a half years, and an amount of € 50 million, with the amount of the operations being able to reach up to a million euros.

- ✓ 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 2020 LABORAL Kutxa made the following enquiries to Autocontrol:

Preliminary advice	**2019**	**2020**
Positive	370	276
With modifications	126	152
Negative	0	0
TOTAL	**496**	**428**
Professional ethics consultations	65	43

- ✓ 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 who meets 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	2019	2020
Applications	67	29
Denied	53	25
Approved	14	4

The conditions set out in this Decree have been applied to the 4 approved operations, which also include tax benefits. All have been signed.
There are also 33 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 36 homes (21 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 2020, the right of the people who ceased to be the owner after the enforcement to continue to stay in the property was not recognised.

Claims

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 2019**	**As at Dec 2020**
- Rejected (RDL not applicable)	1,089	1,140
- Approved	465	489
- Denied	3,427	3,487
- Being handled	24	44
TOTAL incoming	5,005	5,160

The almost only reason for the refusal of the claim to consumers is the fact that they had previously reached a settlement agreement between the bank and themselves, whereby the bank eliminated the floor clause and the clients waived their right to claim for the previous payments. In 2019 and 2020, the number of claims received was much lower than the previous years.

Meanwhile, during 2020, the large-scale legal actions against the Entity were received for the following main reasons:

- Those resulting from floor clauses in mortgage loans, which have also fallen in 2020 to 75, compared with 177 in 2019.
- And those arising from the costs incurred in the formalisation of mortgage loans, amounting to 1,450 in 2020, a reduction of 36% compared to 2019 (2,252).

These clauses often include, in the vast majority of cases due to procedural strategy and without economic content, the request for the nullity of other clauses such as interest for late payment, the commission for claiming debtor positions, the guarantee clause, etc.

Those due to the marketing of the AFS (debt issues) of Eroski and Fagor, which between 2014 and 2016 represented the largest number, have continued to fall, becoming an irrelevant amount compared to several years ago: 8 in 2020 and 13 in 2019.

Lastly, 51 other complaints have been received for causes other than the aforementioned abusive clauses such as the IRPH (mortgage loan reference index), opening commission, law 57/68, right to honour, ...

Customer Service	2019	2020
Total cases	**6,563**	**9,470**
Nature of the cases		
Complaints	5,073	7,084
Claims	1,319	2,341
Consultations	13	1
Suggestions	12	1
Letters of congratulations / gratitude	2	2
Sundry petitions, others	144	41

3.1.5. Protection of privacy and the security of data and operations.

Personal data.

In compliance with current legislation, LABORAL Kutxa must apply appropriate technical and organisational measures in order to guarantee and be able to demonstrate that the processing of personal data complies with the aforementioned legislation.

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.

During 2020 Laboral Kutxa has further strengthened its commitment to data protection, providing the organisation with more human resources aimed at guaranteeing strict compliance and respect for our customers' personal data protection rights.

Thus, in addition to the continuity of our work to provide a rapid response to requests from our customers to exercise their rights, 2020 has also seen the consolidation of the Control Plan and the development of specific training in this area for all the people who work at Laboral Kutxa.

At Laboral Kutxa we understand that the only way to achieve effective and real data protection is to make it cross-cutting and proactive, involving the entire organisation and fully integrating it into our corporate values. Therefore, in 2021, the strong commitment to data protection by design and by default will be reinforced, implementing new action plans and seeking continuous improvement of the comprehensive data protection framework.

Cybersecurity

Customer information and security is one of LABORAL Kutxa's top priorities. The protection of all assets, as set out in the Comprehensive Security Policy, is based on a set of measures for the prevention, detection and reaction to deliberate and non-deliberate, logical and physical risks, natural disasters and human error that may affect the entity.

At the end of 2019, LABORAL Kutxa defined the 2020-2022 Security Master Plan (PDSI). After completing the previous Plan, having assessed the maturity objective achieved in that period according to the Framework used and after carrying out the appropriate security analyses and diagnoses, also bearing in mind the increase and sophistication of the attacks to which financial institutions are exposed, the new security initiatives to be undertaken in this period were planned.

During 2020, the first year of the new PDSI, the Entity enhanced its security capacities in the areas of Governance, Protection, Resilience and Surveillance. In the area of Security Governance, the Security Regulatory Body was revised and new procedures, ongoing cybersecurity training and awareness activities, recurrent developments in regulatory compliance and other initiatives were created. In the area of Protection, improvements were made in the management of privileged user identities, guidelines were updated to improve secure software development, a state-of-the-art anti-malware system was implemented and a new Information Leakage tool was introduced. With regard to Surveillance, the SOC/SIEM service is maintained 24 hours a day, 365 days a year, and the hacking exercise plan was followed. Finally, in the area of Resilience, incident response procedures were updated and the Business Continuity Management System continued to evolve.

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 2020 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 €1 million. A total of 50 million will be earmarked€.
- 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 2020, 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 Soc., 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	2019	2020
Total invoices (euros)	46,256,939	41,614,619
• Medicus Mundi	23,743	18,056
• Caritas	3,324	2,374
• Ikastolak	26,050	19,057
Total donation (euros)	53,117	39,488

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	2019	2020
Zaporeak. "Ayuda en el ámbito de la alimentación" (Aid in the field of food). Cooking and hospitality school in the Ethiopian town of Wukro and the feeding of refugees on the island of Chios.	3,572	-
Mundukide Fundazioa. "Abre el grifo" (Turn on the tap). Cooperative cooperation for the development of people in Mozambique, empowering local farmers through technical training and advice on crop production and marketing.	4,436	3,410
Mundubat. "Support for the right to health of the Saharawi people."	-	2,112
Alboan. "Contra la discriminación y la exclusión en India" (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	2,961
Medicus Mundi. "Promoviendo los derechos sexuales y reproductivos" (Promoting sexual and reproductive rights). Support programmes, in Peru and the D.R. of Congo, that promote genuine equality between men and women, sex education and the commitment of public instit. to these rights.	2,543	2,583
Total amount (with VAT included) donated	**13,834**	**11,066**

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 2020, the insurance covered 42 associations, with 741 insured parties.

Support for the creation of 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 14 research centres promoted by the Cooperatives.

In 2020, these contributions were lower than in previous years, as the banking regulator (Bank of Spain), given the pandemic situation and its foreseeable economic consequences for the financial sector, has prohibited the distribution of most of the profits, which have been allocated to reserves.

Mondragon Group Contributions Thousands of Euros	2019	2020
Contribution to MONDRAGON Investments	6,639	875
Contribution to MONDRAGON S. Coop.	4,429	4,367
Contribution to MONDRAGON Foundation	10,718	2,817
Total contributions	**21,786**	**8,059**
Investment in MONDRAGON Companies (1)	337,994	363,481

(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. 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…

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 have incorporated non-financial information into the processes of selecting asset issuers in which to invest.

Also, 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 2020, we worked hard to expand the incorporation of SRI into the business. The impetus has come both from the requirements arising from the signing of the Principles for Responsible Banking and from the numerous regulatory initiatives that are being generated (Regulation 2088/2019, Taxonomy, etc.) and which aim to turn the financial sector into a decisive lever in the transformation of the economy towards sustainability.

As part of the Strategic Plan developed in 2019 for 2020-2022, an objective had already 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 was to advance and deepen the criteria applied, moving from the current exclusion criteria to other more advanced concepts.

As explained in section 1.7, in 2020 work began on a sustainable finance strategy for the Laboral Kutxa Group. This strategy will be fully defined and will start to be implemented in 2021.

In 2020, 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	2019	2020
MEDICOS MUNDI	€18,533.45	€30,870.11
MUNDUKIDE	€14,490.74	€27,025.69
CARITAS	€11,130.57	€19,222.10
TOTAL	**€44,154.77**	**€77,117.91**

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.

Environmentally responsible products and services

LABORAL Kutxa, in accordance with its strategy of contributing to improve the environment, has products and services to help slow down climate change. Details of these, as well as the projects underway to promote them, are provided throughout this report.

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:

	2019	2020
Loans provided (thousands of €)	20,616	36,370

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 order to have increasingly accessible offices, Laboral Kutxa maintains its commitment to provide its offices with spaces free of architectural barriers, so as to guarantee access for people with reduced mobility and improve customer service. In all the intervention projects undertaken in offices, the objective is to improve accessibility, whenever the characteristics of the premises allow, in terms of both access and interior layout. This eliminates existing architectural barriers and complies with the Accessibility Standard. Given that these actions have been carried out for many years, there are currently very few work centres with any kind of accessibility problems.

Along these lines, our Bilbao Deusto office has recently been refurbished with an electric sliding door that facilitates access without having to manipulate any handles, with the idea of exporting this solution, whenever possible, to all premises that are refurbished.

Access via internet and mobile phone. Multi-channel banking

Laboral Kutxa considers it strategic to move forward in the digitalisation of its activity. It is both a competitive necessity and a

The following stand out among the developments implemented in 2020:

1. Urgent adaptations to Covid-19
2. Contracting of funds in Banca On Line (BOL)
3. Updating of the app
4. New online banking for companies
5. Financial aggregator for individuals, self-employed individuals and companies.

Many other improvements have also been made, such as the contracting of cards for the self-employed and companies in BOL, the integration of the management of Laguntel and Telebanka, the presentation and execution of the Personal Banking investment proposal in BOL, the car rate calculator, the financing of payments, sending money to NGOs with Bizum, weather alerts (insurance), the new payroll alert, the introduction of a chat service to resolve doubts or queries, etc.

The situation experienced by COVID19 has undoubtedly made it necessary to expand the channels of non-face-to-face communication with our customers. As can be seen in the following table, the increase in responses from Remote Banking has been very significant:

Operations	2019	2020
Calls	162,397	432,597
WhatsApp	14,456	57,358
Online Banking CHAT (launched 22/10/20)	-	9,592
Emails to Telebanka	21,592	58,851

Financial culture

LABORAL Kutxa has continued to use social networks to create financial culture and boost knowledge regarding cooperativism. For example, 225 articles of general interest have been included in the Entity's various blogs (blog.LABORALkutxa.com, bancaparaempresas.com and consultingpro.laboralkutxa.com), 74 of which 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 2020, a **Pro Newsletter** has been sent on five occasions (March, April, May, July and October). 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...

2,126 queries have been answered by the Consulting Pro service in 2020, made either in person, by telephone (free hotline 900 100 240), or through the Form available on the website.

Unlike in previous years, in 2020 it was not possible to organise the usual **Pro Seminars,** training activities aimed at owners of SMEs and entrepreneurs. However, there were online sessions, together with LKS Next, aimed at the business world. A total of 255 people registered for the different actions. The topics covered were:

BLOCK I

1. Financial situation of the company in light of the covid19 crisis
2. Key legal aspects to consider in financial restructuring negotiations
3. Tools to digitise my financial department

BLOCK II

1. What is the value of a company?
2. Looking for partnerships to grow my business
3. Partnership agreements. Most common formulas for partnership agreements

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. In addition, a quarterly infographic is sent to BP and Premium customers, with the positioning and composition of portfolios, which includes the main macroeconomic and market events for the last quarter, as well as our positioning and the composition of the Personal Banking portfolios.

Support for internationalisation

Throughout 2020, 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 (U.S.A.)
- Crédit Coopératif (France)
- Raiffeisen Bank International (Austria)
- Banorte (Mexico)
- BMCE Banque Marocaine de Commerce extérieur

In relation to the activity of supporting companies in the agri-food sector, in which LABORAL Kutxa has been very active over the last 6 years, especially in the North American market, a collaboration agreement was signed in February between LABORAL Kutxa and GOURMET FOODS INTERNATIONAL (GFI), a North American importer with its headquarters in Atlanta and a turnover of $500 million, to help our companies establish themselves in the American market.

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 2020 and 2019 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 in the 2020 financial year. The Protocol against sexual harassment and harassment based on sex in the workplace was 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 staff

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 478 people and there was a response rate of 66.3%. As a result of the quantitative and qualitative assessments obtained from the survey, numerous improvement measures have been implemented.
- ✓ Internal Suggestions System. From 2018 to the end of 2020, 1,077 employee contributions were received, of which 115 (10.68%) 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.

As in the rest of the Entity's management areas, the negotiation process in 2020 has also been conditioned by the health crisis, and various processes of negotiation and contrast with the social side have been addressed, related to the measures adopted in the entity to ensure the health and safety of all people and the adoption of extraordinary conciliation measures.

As part of the usual negotiation process, agreements were reached in 2020 on the following matters:

- Compensation for the new role of GOM
- Initiation of a negotiation process for the establishment of a specific working timetable for people working in the singular offices.
- Labour Regulations

As happens every year, at the end of the annual negotiation process, both parties exchanged the list of matters to be negotiated in 2021.

Seguros Lagun Aro maintains a close relationship with the Legal Representation of Workers (R.L.T.) with whom the Company Statutory Agreement is negotiated. A new agreement was signed in 2018 for the four-year period 2018-2021, covering 100% of the workforce.

With regard to the personnel of Caja Laboral Bancaseguros S.L.U (CLBS, a company wholly owned and controlled by LABORAL Kutxa) who are all employees, the working conditions are set out in their own collective agreement, renewed in 2020, as well as general employment 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

In 2020, people management has been strongly conditioned by the progress in the spread of Covid-19, the priority of preserving the **safety and health of all persons** and the uncertainty the situation has generated. Nevertheless, we have been able to make progress in many of the planned areas.

During 2020, a **Strategic Workforce Planning** project was developed, which seeks to anticipate and characterise the workforce that LABORAL Kutxa will need in the 2021-2025 period, both quantitatively and qualitatively. To carry out this exercise, the general trends in the business world, those of the financial-insurance sector, trends in people management and the strategic reflection carried out in 2019 have all been taken into account.

Having this analysis and planning information will allow us to implement actions aimed at incorporating new profiles that will be necessary in the future, while at the same time acting in time to prepare the people of the Entity both to take on these new profiles and for the expected evolution of the positions they currently occupy. These actions that we are already implementing are related to generating a **network of relationships** with universities, business schools, public-private agents, business incubators, etc. to keep us permanently up to date on trends, to know how the training offer on the market is evolving and thus identify new "talent pools to be incorporated", and to see the possibilities of implementing **internal retraining programmes** similar to the aforementioned LK Business Analytics.

Furthermore, the 2020 Training Plan, which had been designed to meet the two major challenges defined in the new strategy, has been implemented despite the fact that the healthcare crisis required us to adapt the initiatives initially designed to the new circumstances. Thus,

- training projects have been started that reinforce existing competitive advantages and allow us to move forward in an increasingly digital environment, and
- we have activated initiatives to develop the skills of the future needed to drive the transformation of the entity.

In addition, a process has been designed to monitor training and its transfer to the workplace.

We launched ONENAK-BIDEAN, a single process based on the integration of two models,

- to continue to evolve the ways of working in each office
- to **homogenise** the ways of working **between offices, in the LK style**
- to continue to make the **Directors grow as business and people leaders, and**

to optimise the system **for the development of people and teams.**

The healthcare crisis has forced us to make the recruitment process virtual, and we have taken advantage of this to incorporate new recruitment tools.
The ZAINDUZ programme, our Health Management Plan, has played a very important role during the pandemic and we have worked to ensure that LK continues to be a healthy and safe entity even in the context of the health crisis. For example, three self-help guides have been published: Teleworking Guidelines, Nutrition Guidelines and Physical Exercise Guidelines, and an Emotional Well-being guide. We have also set up a telephone counselling service.

Continuous Education Programmes

Training activity at LABORAL Kutxa in 2020 consisted of 500 courses and 160,740 hours of training.

The lines of work of the 2020 Training management plan were directly related to the lines derived from the strategic reflection carried out at the end of 2019. From this reflection, 4 Training Programmes were defined related to:

- Off-Balance Sheet Products
- Mercantile-risk
- Insurance
- Digital: this affects the entire workforce as a whole.

Training actions were designed in online and face-to-face format, but due to the situation created by Covid-19 it has not been possible to carry out all the planned actions, and those that have been carried out have necessarily had to become distance learning. We have not been able to carry out everything we had planned and it will be during the year 2021 when we will be able to do so.

On the other hand, we have continued to certify all those who were not accredited in MiFID II and LCCI and we have designed and made available 30 hours of continuous training in MiFID II and 10 hours of continuous training in LCCI.

Training for people entering retirement

There is a programme called "Activa tu jubilación" (Activate your retirement) whereby people who are going to leave the Entity as retirees, pre-retirees or those with free time are summoned to the central services to receive training to prepare them for their new situation. The course consists of three days in which they are trained in change management and relational health, community participation, legal aspects, physical activity and health, healthy eating, new technologies, etc.

In 2020, 4 courses were held, attended by 50 people.

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.

Due to the health crisis resulting from the Coronavirus-19 pandemic, our priority as an entity in 2020 has been to guarantee people's health and safety, as well as to maintain a quality service for our customers. In this context of uncertainty in which we have had our teams split up, it was decided not to promote the deployment of Bidean in the organisation, leaving the development conversations between Collaborator-Manager for 2021.

At the same time, in 2020, work was carried out on the integration of the ONENAK system (Commercial Excellence) and BIDEAN, creating ONENAK BIDEAN for the Commercial Network teams. ONENAK BIDEAN works on the development of people to achieve the aforementioned commercial excellence, through the skills in the LABORAL Kutxa catalogue and commercial systems (planning, monitoring, etc.).

Basque

In line with the Basque Language Strategic Plan (2020-2022), approved by the Board of Directors in January 2020, the challenges and objectives set out in PG'21 have been implemented.

These were the 2 areas of work, the 5 challenges and the main objectives for the year:

- SERVICE LANGUAGE
  - 1. To guarantee and encourage the use of the Basque language in the service to customers

1.1. Offering service in Basque in all offices
1.2. To promote the use of the service in Basque by customers
1.3. Attract more Basque-speaking customers

  - 2. To show that the Entity is committed to the Basque language

2.1. Socialisation of LABORAL Kutxa's commitment to the Basque language
2.2. Increase the presence of the Basque language in external activities

- WORK LANGUAGE
  - 3. To integrate Basque into the dynamics of the organisation

3.1. Presence of the Basque language in all the divisions' management plans.
3.2. Promote the use of the Basque language by the Management
3.3. Develop middle management leadership
3.4. To work on our commitment to the Basque language and make it visible in social bodies
3.5. Integration and application of linguistic criteria to all staff
3.6. Guarantee the use of the Basque language in the management and training of people

- 4. To increase the workers' knowledge of the Basque language

4.1. Raise awareness of the need for knowledge of the Basque language
4.2. Ensure linguistic profiles of the job positions

- 5. To increase the internal use of Basque

5.1. Promote awareness-raising and engagement campaigns among peers
5.2. Carry out specific work with the *belarriprest* (Someone able to understand Basque but speaks it with difficulty)
5.3. Guarantee the use of the Basque language in information and communication tools
5.4. Encourage the use of the Basque language at meetings
5.5. Encourage the use of the Basque language in new technologies

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 were awarded the distinction of Collaborating Entity of Emakunde, the Basque Women's Institute, making us the first financial institution to receive this recognition.

During all these years, in addition to creating a stable structure to promote equality policies and activate various working groups to work on specific issues, we have managed to integrate equality into the Entity's strategy. We have managed to make it an issue that is on the agenda of the Management, and to 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 continuously over the last few years.

Thanks to the work we have done, we have made it possible for both the Governing Council and the Social Council to have a balanced gender representation. Another relevant indicator is the percentage of women in management positions in offices of the retail network, 58% in the Nafarroa network and 53% in the Gipuzkoa network are women. Thus consolidating the trend of recent years.

However, we still have a long way to go and still have major challenges to face. Our ambition is to achieve a greater presence of women in leadership positions and decision-making areas, and to move in parallel 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 talent existing in the Company, without gender being an obstacle.

In order to achieve this objective, throughout 2020 we have developed various initiatives, all of which are part of LABORAL Kutxa's IV Plan for the Equality of Women and Men.

- Firstly, in response to the challenge of promoting an **egalitarian culture** at LABORAL Kutxa, we have incorporated the gender perspective in the Entity's documents, and in this regard, we have revised the internal regulations to guarantee inclusive language in their wording. We have included in the Welcome Plan an explanation of the equality policies we are developing in the Entity. And a modification has been made to the Articles of Association to include the classification of cases of sexual harassment and gender-based harassment. As a reflection of this commitment to adaptation and continuous improvement, we have undertaken a process to redesign LABORAL Kutxa's sexual harassment and gender-based harassment protocol.

- Furthermore, aware of the difficulties that COVID-19 has created for various people in the Entity in the area of co-responsible work-life balance, and the uncertainty of the situation, a **study was carried out at the beginning of the summer on the care responsibilities of the Entity's members**, in order to establish the criteria to be followed in the measures to be provided to people. The results of the study have been taken into account when designing the extraordinary measures to be offered, and we have included the principle of co-responsible work-life balance in the design of these measures.

- On the other hand, within the framework of the ***Towards Shared Leadership*** project, we have organised a single edition of the **Empowerment School** aimed at women in the Organisation. Although the plan at the beginning of the year was more ambitious, the crisis resulting from the pandemic generated by COVID-19 has not made it possible. We have also developed an **awareness-raising workshop for men.**

- In terms of **external communication and dissemination**, we have developed various initiatives to publicise the work we are doing in the field of equality. For example, we have taken part in a conference organised by *Deloitte* on Diversity; in the conference organised by *Enpresarean* in relation to the SDGs; and, as we have done for the last few years, we have taken part in Emakunde's *BaiSarea* network together with other organisations, having the opportunity to share good equality practices and learn together.

  In addition, we have continued to sponsor various initiatives to encourage the participation and empowerment of women, such as the *Emakume Master Cup, Lilatón*, Lilatón, Clásica Femenina Navarra, etc.

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.

It should be noted that, as at 31 December 2020, 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, Laboral Kutxa 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 relation to the employment of disabled people, LABORAL Kutxa has 17 people under such 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 System Regulation provides measures to reconcile personal and working life, as a way to alleviate, through permissions and/or specific leave, difficulties experienced by members of staff in meeting urgent family needs. They refer to aspects of working hours, remote working, paid and unpaid leave, as well as flexible working hours in Central Services during the summer (continuous working day) and extending the possibilities of taking paid and unpaid leave.

As mentioned above, extraordinary measures were implemented in 2020 in response to the exceptional situation.

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 was 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.

Lastly, 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 this:

- through a universal Individual Variable Remuneration, and
- a Collective Variable Remuneration applicable to people with an indefinite contract (close to 100% of the workforce) voluntarily joining a company formed precisely to enable the participation of workers in the results of the company.

In terms of **pay levels**, the salary range is substantially narrower than in the rest of the banking sector.

LK starting salary	2019	2020
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 relationships 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	2019	2020
Minimum salary upon entry in € / no. hours worked	11.30	11.43
Minimum salary upon entry in € / Minimum inter-professional salary	1.49	1.43

As regards **salary dispersion**, there is a very narrow range of salaries, consistent with the value of solidarity inherent in cooperatives, as shown below:

	2019	**2020**
Total pay for best paid person LK / median total pay	4.52	4.64
Increase in annual pay of the best paid person LK/Incr. median annual pay	0.24	-0.41
Total pay for best paid person CLBS/median total pay	2.02	2.17
Increase in annual pay of the best paid person CLBS/Incr. median annual pay	0.59	0.86
Total pay for best paid person / median total pay **Lagun Aro**	2.1	2.1
Increase in annual pay of the best paid person Lagun Aro/Incr. median annual pay	3.33	-2.98

*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.
*Until 2019 the remuneration was calculated with the mean, from 2020 it is calculated with the median.

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 548 of them having individual objectives in 2020 (533 in 2019) and the rest having objectives associated with their team.

The evolution of what variable remuneration (individual + collective) means for staff in relation to total remuneration is as follows:

	2019	**2020**
Variable Remuneration / Total Remuneration (in %)	8.04%	6.75%

Remuneration to share capital

Members' contributions to the Share Capital have been remunerated in 2020 at the annual rate of 4.5% gross for compulsory and voluntary contributions.

Remuneration to Share Capital (thousands of euros)	2019	2020
Total payment of interest to Capital (to associated companies, to working partners, etc.)	34,316	29,170
Share received by working and collaborating members (1)	12,189	9,715

(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.

Management programme: Proposed actions for 2020 and their situation.
1. Implement a new system for office management to inspect office locations.
2. Adapt the management system to ISO 45001: Completed
3. Perform 500 medical check-ups (LK and CLBS): Not completed due to the health crisis.
4. Reach 85% of staff who comply with emergency training: Not met, 70%
5. Link the business act. coordination software to access control in Central Services (CS): January 2021.
Management programme: 2020 key targets and commitments
1. Pass the ISO 45001 certification audit.
2. Improve the implementation of the CAE in the office network.
3. To make progress in improving the dynamics of stakeholder consultation and participation.
4. Apply the new psychosocial RA methodology.
5. Maintain regular activity in medical examinations, risk assessments, coordination of business activities and healthy company (Zainduz).

In 2018 LABORAL Kutxa and CLBS passed the regulatory audit and renewed their OHSAS certification. In 2020, the second follow-up audit was passed, and the certification audit for the new ISO 45001 is scheduled to be passed in 2021. To achieve the objectives defined in the Occupational Health and Safety Policy (OHS), the activities are planned annually in the OHS Management Plan. Within the Management System, among others, there are procedures for hazard identification and risk assessment, accident investigation and health surveillance.

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	2019	2020
Employee accident rate.	1.07	0
No. of accidents of LK, CLBS and LA personnel	46	27
No. of fatalities among employees.	0	0
No. of robberies	6	0

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. In 2020, all accidents resulting in sick leave were in itinere. 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 which are published on the Intranet, establishing both preventive measures and measures to be taken in the event of such situations. Similarly, 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 were then managed 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. As part of the recruitment process, there is an occupational health and safety training module that explains the organisation of the system, the main risks and preventive behaviours. In 2020, training was launched for the entire workforce covering emergencies.

Lagun Aro has its own Management System, with procedures similar to those of LABORAL Kutxa for hazard identification and risk assessment, accident investigation and health surveillance covering the entire workforce, with a joint Health and Safety Committee with staff representation.

COVID-19

From the point of view of occupational safety and health, 2020 has been marked by the pandemic situation. This situation has forced the organisation, at all levels, to give even greater priority to the health of our staff and customers. Annual preventive planning was altered shortly after the start of the year, with the prevention team focusing on pandemic-related activities as opposed to other, at that time, secondary activities.

When the potential seriousness of the situation was understood, a Coronavirus Committee was set up, made up of people from different areas of the Fund, including health staff (doctor and nurse) and other people from the Health and Safety Committee (Prevention Officer and Chairman of the Committee, prevention delegate).

The Committee managed the situation from a health, commercial and business continuity standpoint. To this end, it has made the necessary decisions and has had the resources to carry out its mission. From the health perspective, it has worked along the following lines, among others:

- Establishing action protocols
- Determining the necessary protective measures
- PPE management
- Organisational measures

Internal communications have been made regularly to inform the organisation of the situation, the measures being taken and the operating instructions. By the end of 2020, 33 such communications had been made.

Health Plan-Zainduz

Since 2018 there is a health plan for the staff of the LABORAL Kutxa Group. Zainduz (Cuidando, “taking care”) is a programme aimed at promoting health, safety and well-being at work through the implementation of programmes focused on promoting healthy and sustainable habits in people, their families and the environment in which they live. It covers aspects such as improvements in diet, physical activity and health at work, so as to improve the physical and emotional well-being of the people who belong to the Group.

Although only two years have passed since the launch of ZAINDUZ, it has become a benchmark for the creation of a culture of well-being and healthy attitudes are gradually being established in all areas of the organisation.
As could not be otherwise, Zainduz's activity has been marked by the health crisis, forcing it to adapt the initial Management Plan to the new reality and needs. The main actions carried out in 2020 included:

- Streaming conference on positive attitude.
- Question-myth-challenge initiative with the aim of raising awareness of nutrition, physical exercise and ergonomics.
- Design of a sustainable mobility initiative (Laboral by Bike) to be launched in 2021, providing financial incentives for commuting to work by bicycle.
- Publication of three self-help guides during confinement on teleworking, nutrition and physical exercise. Also a guide with recommendations for holidays and an e-book with stretching exercises.
- Publication of a guide to emotional well-being and the provision of psychological support by telephone.
- Videoconferences on: nutrition and the immune system, the relationship between nutrition and cognitive function (concentration, perception, memory, creativity...), the relationship between physical hunger and emotional hunger, pre- and post-workout foods to optimise physical performance.

zainduz

3.2.9. Social Benefits Package

LABORAL Kutxa has developed the following initiatives focused on improving the social benefits received by its people:

Social benefits
Annual get-together (for everyone), Elkarte Eguna, and participation in cultural and sporting activities through the Lankide Club (which is financed by the Entity itself) as a vehicle for personal interaction outside the working day. It has not been possible to hold these events in 2020.
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 2020, given the health circumstances, it has not been possible to hold the annual social gathering (Elkarte Eguna) or most of the usual activities, being limited to season tickets for theatre and music,_mountain and cycling federation subsidies, football tournaments, football and basketball season tickets or outings. The total budget for 20120 was €30,776.

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 2019 and 1.25% in 2020) 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)	2019	2020
Annual overall amount	12,915	9,689
Average amount per partner	6.60	Nd (1)

(1) Data not available until the General Meeting.

Meeting the financing requirements of a supplementary health care system

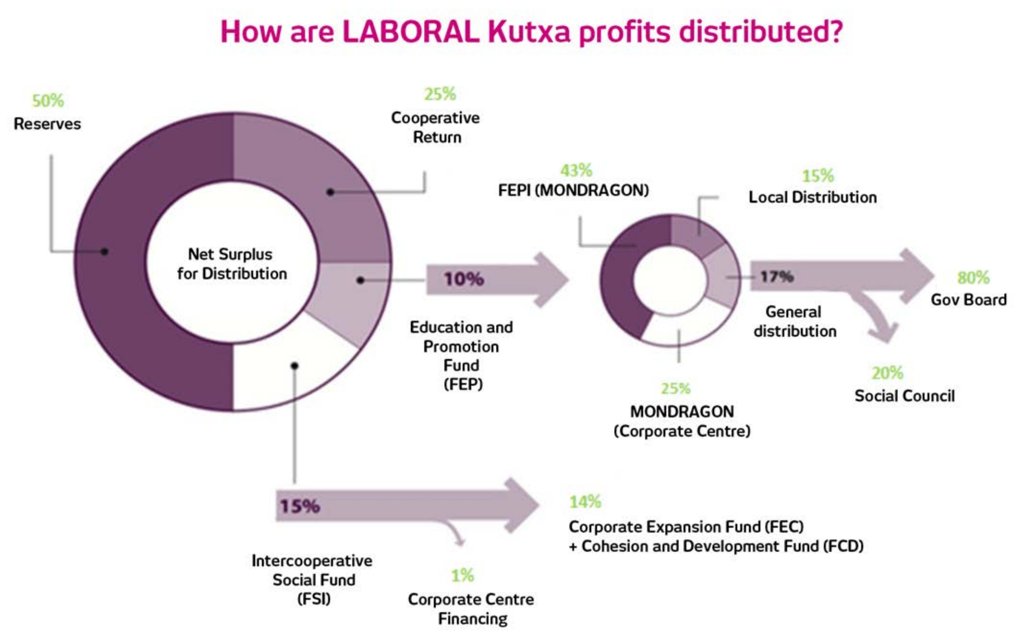
LABORAL Kutxa covers, for the benefit of its members and working partners, co-payment of the fees required for the annual financing of a comprehensive health care system, complementary to that of the public social security system, which the MONDRAGON Corporation provides for its participating members. In 2020, this co-payment was 1.40% 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 works for local assistance (Local Distribution), by means of allocations through the 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 2020, LABORAL Kutxa continued to strengthen its commitment to the environment, biodiversity and sustainable development, thanks to the signature of various agreements signed with the main agents in the food industry and the support provided for initiatives related to the rural environment.

In 2020 this usual distribution of profits could not be performed. European and Spanish banking regulators have limited profit sharing in the financial sector in order to strengthen their balance sheets in the face of the expected economic consequences of the health crisis.

Gaztenpresa Foundation

The Gaztenpresa Foundation is a private, non-profit organisation. It is part of LABORAL Kutxa's social work and its purpose is to support initiatives and develop actions that facilitate job creation and job preservation. This is done through programmes and services that add value to the business and professional development of its users, as well as 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 2020. The projects supported and which went beyond the feasibility phase generated 256 companies, creating 504 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	2019	2020
Viable and open the business	405	259
Not viable/ Viable but do not open the business	195	209
Consolidation	50	-
Derivatives	96	104
Consultations	295	242
Total	**1,041**	**813**

Note: This year, business consolidation has a special section and will be accounted for under a separate heading.

Among the viable ones that open the business, the regional distribution is as follows.

Gaztenpresa projects in 2020	Araba	Bizkaia	Gipuzkoa	Navarra	Total
Viable and open the business	67	134	23	32	**256**

These are small businesses, with services and retail being the most common sectors of activity:

- the average investment in 2020 was €74,993,
- the average funding provided by the Entity was €36,015, 48%,
- 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 42%.

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 carries out business consolidation actions that we have called "Reinvent yourself to continue" in this difficult year to provide support to these entrepreneurs, also attending to queries about new investments, closure decisions, market changes or applications for new aid.

Business consolidation	2019	2020
Workshops	50	40
Companies in consolidation	175	370
Queries handled in PRO service	372	978
Mentoring programme	20	19

In addition, the **mentoring** programme offers personalised support for one year, through which an expert with entrepreneurial experience who collaborates with Gaztenpresa as a volunteer helps an entrepreneur who is starting their first business venture to strengthen their skills and competence, enabling both their personal and professional development and the consolidation of their business. These *new mentor-entrepreneur relationships were launched during 2020. 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.

The situation caused by the pandemic has deeply affected these contributions in 2020. On the other hand, as mentioned above, the Bank of Spain has limited profit sharing for financial institutions, so less of the surpluses for 2019 have been distributed. At the same time, these circumstances have made it less possible to organise events or sponsor most of the activities that we had been supporting, such as cultural and sporting activities, conferences, awards and solidarity actions.

Even so, and although fewer than in previous years (more than 200 in 2019), numerous actions have been supported in 2020. Some of them are: Cros SEI IZAR, Jazz Waves in the City (Ondas de Jazz en la Ciudad, Vitoria), Pasaia-Donostia: Family Race, Gipuzkoa Athletics Championship. 14-19 years old, SER Solidarity Awards, Surf International Film Festival, Nanorelatos Lk Award Competition (Vitoria City Council), Aspegi Awards (businesswoman of the year), Euskara Ibiltaria Erakusketa, Araba Koadrila Artekoen Txapelketa. Opera txiki, LILATON, Salamanca Half Marathon, Suhiltzaile Lasterketa, Emakume Master Cup, Erandiko Krosa, LORALDIA, School Cycling, Gala Business Initiatives Award, Donostia 20th Anniversary Half Marathon, ARRASATE UDALAITX Mendi Trail, UCI Fem Durango Cycling Classic, Golf Olimpia Road Tour,...

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, but could not be made in 2020 due to the pandemic situation.

Relations with Government Agencies and political parties

LABORAL Kutxa defines Public Administration Management in the Public Sector Management Manual as a differentiated, integrated, coordinated and dynamic management by the Public Sector Office within the Network of Companies. This document defines the responsibility and functions of each Division of LABORAL Kutxa in the management of this segment in everything that affects the segmentation, management systems, information systems, commercial strategies and risk management.

In the same way, the LABORAL Kutxa Risk Manual "Credit Risk Policy, Methods and Criteria", considers in Chapter 5 the "Risk Policy to be applied to the Public Sector", establishing a differentiated policy within the scope of Companies due to their accounting and legal 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:

	2019	2020
Eusko Alkartasuna	104	96
EAJ - PNV	670	550
Loans (thousands of euros)	774	646

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 2020 it was just over **9.5 million euros**. As explained above, in 2020 it was not possible to make the usual contribution of profits to the Intercooperative Social Fund due to instructions from the Bank of Spain. The distribution among headings was as follows:

Item (thousands of euros)	Years of application	
	2019	2020
Charitable contribution to the launch and consolidation of cooperative companies (through MONDRAGON)	14,227	0
Inter-cooperative Social Fund - FSI (15% of Distributable profit)	**14,227**	**10,332**
Cooperative Promotion through MONDRAGON (68% FEP) and other destinations (UNACC, etc.)	6,593	8,118
FRES, Fund for Restructuring and Company Employment	0	121
Entrepreneurship and Business and vocational training (*Fundación Gaztenpresa)*	331	197
Cultural activities in general and others	845	446
Promotion of the Basque-language and Basque Culture	703	318
Welfare institutions and developing countries	630	398
Agri-food sector	105	55
Education and Promotion Fund - FEP (10% of Distrib. profit).	**9,210**	**9,653**
Sum FSI+FEP	**23,437**	**9,653**

3.3.3. Dialogue with society

These are the most relevant mechanisms for dialogue with society.

Group of Interest: Society
Dialogue mechanisms carried out in 2020:
▪ 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 dynamization 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: 6,160 followers ❖ Facebook: 18,803 fans ❖ Twitter: 6,531 followers ❖ Blog: 811,433 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.
▪ Acknowledgements, in collaboration with various institutions, such as: The Humanities Prize (with Eusko Ikaskuntza) went to Mikel Mancisidor and the Etxepare Translation Prize went to Eider Rodriguez and Lander Garro. In 2020, given the circumstances, it was not possible to award the traditional Navarre prize for solidarity. ▪ Survey of Customers from companies, personal banking, Kide, TOP and Pro-microcompanies on their assessment of CSR activities at LABORAL Kutxa, while sending out the Executive Report on the 2019 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.

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 360,000 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

bcam
basque center for applied mathematics

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

Undoubtedly the main activity carried out throughout 2020, strongly conditioned by the pandemic situation, in the field of financial education has been the culmination of the Finantzetan Murgilduz Erronka (financial immersion challenge). It is an agreement with Ikastolen Elkartea to create resources for the development of Financial Educ. in educational centres. This programme is aimed at A level and 3rd-4th year secondary students. The designed resource is materialised in 2 educational programmes:

- They are freely available to schools, are run by teachers from the school and are developed in the classroom.
- Various situations are presented to pupils in the form of a challenge and different skills are worked on (finance, decision-making, cooperation, etc.).

It consists of:

- Web platform https://finantzetanmurgilduz.eus
- Educational material for students (cases and multimedia support).
- Teacher's guide.

Other initiatives have also been carried out in this area of financial education:

- Secondary school visits to LK: although more were organised, it was only possible to hold a single workshop with 20 students.
- Finantzargi (University). Basic finance training for university students from Mondragon Unibertsitatea. 3 groups and 70 pupils took part.
- Children's drawing competition with the UNACC on the theme of "Money: What it is, how it is earned and what it is used for".

- Participation in financial education day with a banner on the website.
- Dynamization of the Financial Education section of the corporate website, with the labelling of more than 100 articles as Financial Education.
- 21 blog posts focused on helping to improve the culture and knowledge of financial news.
- Regular publication by LABORAL Kutxa's Research Department of various reports: Basque/Navarre economy report, economic outlook report and the business and household confidence index.

Awards received

The following awards have been received over the past three years:

- Computing 2020 Award in the category "Modernisation of infrastructure and applications".
- 1st Prize for Experiences of Equality between Women and Men in companies in Gipuzkoa 2018, awarded by the Provincial Council of Gipuzkoa

In 2020, Lagun Aro renewed its "EthSI®" (Ethical and Solidarity based Insurance) certificate.

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 direct environmental impact caused by the insurance company is minimal. However, its management focuses on the issues related to paper consumption. A digital signature project is being worked on to further reduce the use of paper.

From an environmental point of view, a particularly significant initiative in 2020 was the start-up of the EKIAN solar plant. With a surface area of 55 hectares, an operating power of 24MW and an annual production of nearly 33,000MWh, 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.

It has also been an important milestone in Laboral Kutxa's environmental management to switch to consuming all its electricity from renewable sources. The effect of this effort can be clearly seen in the calculation of the carbon footprint, which has been significantly reduced in 2020 compared to previous years.

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 21/09/2020, the strengths of the EMS were listed as:

- Analysis carried out on stakeholders through studies, surveys, web visits, etc.
- Environmental notifications via the website and blog (Sustainability Report, video on environmental management, weekly news on blog, etc.)
- Environmental communications to employees via the intranet.
- Signing of the responsible banking principles of the United Nations Environment Programme Finance Initiative (UNEP FI).
- Participation in the EKIAN solar plant in Arasur.
- Creation of a new EROSI procedure and tool for purchasing from suppliers.
- Survey conducted on the mobility of the workforce and bonuses proposed to employees for the use of bicycles via the new LaboralByke app.
- New system for the collection of paper and other waste in central services and offices.
- Distribution of glass bottles to all central services and network to eliminate plastic bottles.
- 93% reduction in diesel consumption as a result of the equipment installation of geothermal energy.
- 3.71% reduction in CO2 emissions by 2019.
- 2.72% reduction in electricity consumption in 2019.
- 7.22 % reduction in paper consumption in 2019.
- Increase in the number of customers in postmail.
- Control carried out through the planning and monitoring of the Environmental Plan.

No non-conformities are mentioned.

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, accessible for all its staff 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	2019	2020
Maintenance of the EMS (1)	6.763	4,106
Waste management (2)	4,830	3,705
Environmental promotion	168	2,519
Measurements (discharge)	565	1,145
Total in €	**12,326**	**11,475**

(1) IZAITE, AENOR, Hora Planeta and legal requirements.
(2) Removal of Paper, oil and Safety Advisor.

These expenses are those directly managed by the Environmental Committee and do not include costs managed by specific departments or any investments made. **Seguros Lagun Aro** does not have specific 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.

Segment	Operation No.		Thousand €		High		Medium		Low	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Companies	562	751	878,324	938,704	27	28	87	103	448	490
Individuals	12	5	29,699	14,333	-	-	-	-	12	5
Self-employed	1	2	1,400	130	-	-	-	-	1	2
Businesses	12	20	9,084	23,673	-	-	-	2	12	17
Developers	85	61	294,990	314,962	-	-	-	-	85	50
Institutional	127	163	471,016	415,341	5	8	34	35	84	81
Public	27	51	392,869	2,539,052	-	-	-	-	27	44
Fin. Loan	9	10	7,662	8,313	-	-	-	-	9	1
Total	**835**	**1,063**	**2,085,043**	**4,254,507**	**32**	**36**	**121**	**140**	**682**	**690**

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 two 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 €	2019	2020
Exposure to Credit Risk		
Circulating risk	46,332.2	35,621.4
Structural risk balances and guarantees	7,170	6,799.7
Shares in wholesale risk	0	0
Total exposure	**53,502.2**	**42,421.1**

It was confirmed that LABORAL Kutxa's exposure to the incidence of climate risk in these industries is very limited.

A first TCFD report explaining LABORAL Kutxa's situation with respect to climate risks is included in the appendix to this report. It presents the progress made in this area, as well as the important challenges ahead.

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 for destruction 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	2019	2020	2019	2020
Cardboard and paper waste	Kg	106,927	55,980	5,652	1,509
Recycled toner cartridges (2)	Kgs	6,321	3,065	(1)	
Used vegetable oil	Litres	2,295	540		

(1) This waste is not generated for Lagun Aro.
(2) The figure for 2019 corresponds to units, not kilograms.

Given the activity carried out, no measures are taken to combat food waste.

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. The water used comes from the mains network and drains into the municipal sewage network. The waste water is analysed externally each year to verify that it is within the authorised limits.

Water consumption (m3) at Headquarters	2019	2020
Water consumption	10,898	5,696 (1)

(1) Data for the first 3 quarters. En 2019, 8,394 m3 for the same period.

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 Kutxa+Lagun Aro	
Paper consumption kg	2019	2020
Promotional paper	130,785	101,650
Office paper	282,081	234,798
Total paper consumption	412,866	336,448

100% of the paper consumed was environmentally friendly, chlorine-free paper.

In order to reduce the amount of paper used in customer communications, a significant effort has been made in recent years towards the use of new technologies and e-mail communications (Postamail), along with the digitisation of the operations in the offices. This is leading to a decrease in the volume of paper and toner consumed.

	LABORAL Kutxa+Lagun Aro	
Toner consumption in units	2019	2020
Total toner cartridge consumption	3,502	3,038
Cartridge consumption per person	1.57	1.35
Weight of toner used kg	2,602	2,269
Weight of toner used kg/person	1.16	1.01

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	2019	2020	2019	2020
Electricity consumption in Kwh / year Central Services	3,380,870	3,089,825	348,851	229,751
Electricity consumption in Kwh / year TOTAL LK	12,915,786	11,505,454		

Internal energy consumption A improved significantly with respect to the previous year due to using the facilities less.

External energy consumption B, the petrol used for travelling, entailed a consumption of 12,334 GJ (20,215 GJ in 2019). For Lagun Aro it was 602 GJ in 2020 and 1,426 GJ in 2019.

Energy intensity, measured as total energy consumption (including internal A and external B) among the total number of employees (LABORAL Kutxa and CLBS) was 25.76 in 2020 compared to 32.18 in 2019. For Lagun Aro it was 8.61 and 16.46, respectively.

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.

In any case, the significant improvement in energy consumption in 2020 is basically due to the limitations of displacement and confinement suffered, so it is to be expected that they will return in the coming years.

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	2019	2020	2019	2020
Scope 1: Direct emissions	160	145	0	0
Scope 2: Indirect emissions	3,616	0	98	0
Scope 3: Other indirect emissions	1,069	677	70	30
Total emissions Tonnes of CO2	4,849	822	168	30

The Klima 2050 calculator of the Basque Government has been used to determine this.
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, business travel (air, train and hotel), electricity consumption of customers when using our website, paper waste management and water supply.

As can be seen, the reduction in CO2 emissions has been considerable. The main reason for this is that we have switched to consuming all our electricity, our main source of emissions, from renewable energies. These indirect emissions accounted for 75% of those emitted in 2019, so by ceasing to emit, our footprint has decreased significantly. Another aspect that has been added to the previous one has been the reduction in travel due to the health crisis, an aspect that will partly recover in the coming years.

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 2020, sustainability was introduced as an across-the-board strategic variable. Multi-year objectives were set to reduce Co2 emissions and paper consumption, as well as the creation of green products and the further implementation of Socially Responsible Investment.
- 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 has been initiated 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.

- As mentioned above, in 2020 the Ekian project was launched, the largest solar plant in the Basque Country, a project in which LABORAL Kutxa is one of the participating entities.
- With a view to 2021, the management plan includes a sustainable finance project that aims to propose a policy and strategy to transform our business model towards a more socially and environmentally sustainable one.

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. At present, suppliers are not yet screened for environmental criteria.

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 2020:

1. As in other areas of activity, the relationship with supplier companies in 2020 was marked by the health crisis. This has been particularly relevant in the relationship with the companies that come to or carry out their activities in our facilities. From the outset, protocols and safety measures were established to protect the health of our people and suppliers. We have tried to minimise the presence of suppliers in our facilities and in those cases where this is unavoidable (cleaning, maintenance, subcontractors, etc.) the same safety measures have been applied to them as to our staff.
2. With regard to occupational risk prevention, progress has been made in coordinating business activities. Following the implementation of an IT tool in 2018 for the management of coordination, an interdepartmental working group was set up in 2020 to advance the implementation of coordination in all activities and at more than 300 work centres.
3. Since 1 January 2020, it has been mandatory for all contractors to follow the supplier procedure for the purchase of goods and services. As part of this supplier company management 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.

Aware of the importance of managing the risks generated by the outsourcing of services and with the aim of guaranteeing regulatory compliance with these functions, Laboral Kutxa has worked in recent years on various activities focused in this direction. In 2017, Laboral Kutxa defined a Contracting and Purchasing Manual with the aim of establishing a policy for the acquisition of goods, services and subcontracting that includes a protocol for the approval of suppliers and implementing a centralised and specific Purchasing Committee for the approval and supervision of the purchases made by the Entity. Later, a model for managing supplier contracting was defined and a web application was developed to support this model. This tool was put into operation at the beginning of 2020 and makes it possible to assess the risk of outsourcing and the identification of security requirements, including a series of required checks. Lastly, in November 2020, the **Policy on Delegation of Services** was approved by the Governing Council, establishing the criteria to be followed in relation to the services or functions delegated to third parties, both at the time of prior analysis and approval of the outsourcing, as well as in its subsequent formalisation, development and monitoring.
During 2021, work will continue along these lines to develop the third-party management model and comply with the EBA **Outsourcing Guidelines**, analysing the current situation of Laboral Kutxa and Seguros Lagun Aro in this area, identifying GAPS with respect to the EBA/EIOPA Outsourcing Guidelines and defining an action plan that allows the entity to adapt to the requirements demanded by the regulation and to good market practices.

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

	2019	2020
Purchase volume (thousands of euros)	166,229	127,409
% of goods and services purchased from local companies (2)	96.4%	94.9%
% of local suppliers of total	93.4%	92.6%
% of domestic purchases, not imported (1)	99.5%	99.2%

(1) In 2020 LABORAL Kutxa had 19 supplier companies (1.61% of the total and representing 0.82% of the goods and services acquired), from outside Spain. These were all from European Union countries except 5 from the USA.
45.4% of the amount comes from what is known as the Traditional Network (CAV and Navarra).

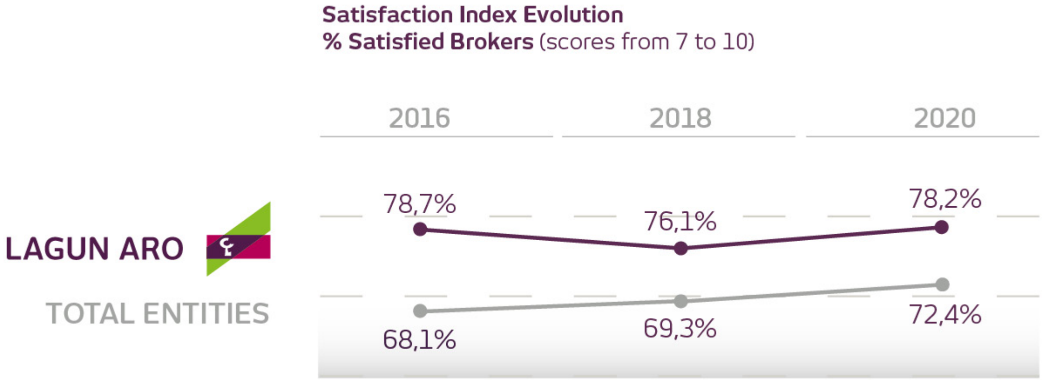
(2) Local are defined as those whose address is in a province where we have a presence through our network of offices.

3.5.3. Dialogue with suppliers

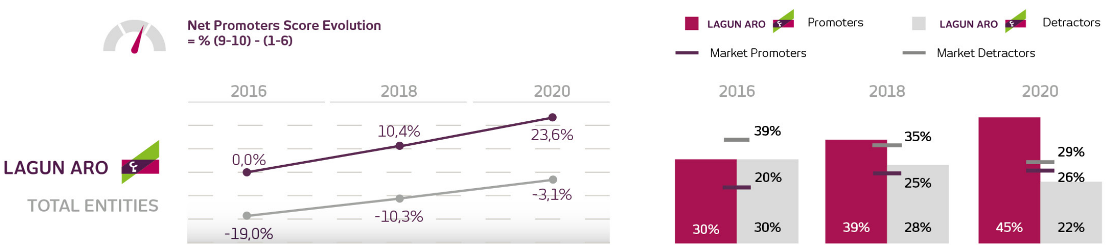
Regarding the dialogue with supplier companies concerning CSR, a questionnaire was sent to 165 supplier companies for the purposes of this Report. Companies were specifically chosen because their workers perform work within our premises. This included subcontractors and outsourcing companies._A response was received from 20 supplier companies, who rated the importance of this Report as 8.5.

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 insurance business.
A constant dialogue is maintained with the mediators and their level of satisfaction is analysed with annual measurements.



In the Net Promoter Score (NPS) LAGUN ARO shows a very positive trend, to a greater extent than that observed for the Total and it is above this as the 1st entity with the best NPS **(1st in 2018 and 3rd in 2016).**



RECOGNITION AND TRAINING FOR OUR BROKERS

On 20 February, the MEDIATORS' CONVENTION was held at the Aquarium in San Sebastian, where a game was played to simulate the San Sebastian Film Festival. At the meeting, the company's Strategic Plan for the coming years was presented.

Throughout the year, the members of the SPECIAL CLUB received different inputs to deal with the health crisis; continuous meetings to monitor needs, online recreational meetings, etc.

In addition, the following support measures were made available to all mediators; Delivery service for medicines for customers, video appraisal in the processing of services, extension of payment deadlines, flexibility in instalment payments, ongoing marketing support and special discounts for the most disadvantaged groups.

3.5.4. Initiatives developed during the year for responsible supplier management

During 2020, 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. For 2021, the objective is to link this tool to the access control system so that no subcontractor can enter our central services 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, the IT tool that will now serve as the basis for contracting suppliers for the entire Bank was launched to all contractors.

The procurement procedure requires supplier companies to adhere to the Supplier Code of Ethics, committing themselves to environmental, human rights and equality, anti-money laundering and anti-corruption and data protection principles and obligations.
Three types of supplier companies are distinguished 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.

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)	2019	2020
Public sector	**773.2**	**894.1**
Other Resident Sectors	**13,444.8**	**13,852.4**
National Economies	10,470.0	10,596.6
- Mortgages	9,818.3	9,941.3
- Consumer financing	410.6	404.7
- Others	241.2	250.6
Companies	2,379	2,691.0
Other Loans	595.8	564.8
Non-Resident Credit	**30.6**	**26.2**
Total Credit to Gross Customers	**14,248.7**	**14,772.2**
Value adjustments due to asset impairment	-289.6	-328.9
Total Credit to Net Customers	**13,959.1**	**14,443.8**

The geographical distribution of LK customers is as follows:

Geographic area	Lending		Deposits	
	2019	2020	2019	2020
Bizkaia	25.06%	23.51%	33.02%	32.46%
Gipuzkoa	15.43%	17.81%	27.98%	27.25%
Araba	8.03%	7.77%	11.31%	11.08%
Nafarroa	9.75%	7.35%	9.63%	9.49%
Burgos	2.49%	1.90%	1.66%	1.66%
Madrid	3.30%	5.12%	1.01%	1.04%
Valladolid	3.91%	4.09%	2.11%	2.17%
Zaragoza	5.05%	4.77%	1.65%	1.80%
Other	26.98%	27.69%	11.63%	13.05%
TOTAL	100%	100.00%	100%	100%

The profile of CLBS Customers at 31/12/2020 is as follows:

Category	Insured men		Insured women	
	No. Policies	Average Age	No. Policies	Average Age
Life Risk	43,455	46	39,649	46
Early Partial Redemption	25,892	45	20,313	46
Early Partial Redemption	8,021	39	7,609	39
Home owner	64,007	54	49,270	54
Landlord/Landlady	6,897	56	5,775	57
Tenant	3,021	48	3,375	47

Customer Service

Customer Service - Amounts claimed (thousands of euros)	2019	2020
Amounts for cases resolved in favour of the Company	1,150	2,155
Amounts for cases resolved in favour of the customer	69	225
Indemnities paid by the Company	68	225
Amounts returned to customers by the Company, no payment due	1	0
Amounts compensated or refunded by third parties	0	0
Total	**1,218**	**2380**

Reason for opening cases (SAC)	2019	2020
Centralised customer services	3%	2%
Commissions and expenses	73%	87%
Economic terms	14%	2%
Missing or inaccurate information	0%	0%
Coverage of needs	1%	0%
Information missing or incorrect	3%	4%
Aspects of customer relations	2%	2%
Campaigns in general	0%	0%
ATMs	2%	1%
Amount of the claims	**2019**	**2020**
≤ €100	24.43%	10.73%
> €100 ≤ €250	3.62%	6.22%
> €250 ≤ €1,000	54.76%	65.62%
> €1,000	17.19%	17.43%

The claims presented through the various available channels have been:

	2019	2020
No. of claims submitted to the Claims Service of the Bank of Spain in relation to product safety (1)	0	7
No. of claims in which BoS has pronounced in favour of LABORAL Kutxa	0	5

Claims related to the fraudulent use of means of payment and phishing.

	2019	2020
No. of claims submitted to the Claims Service of the Bank of Spain, DGS, CNMV and UNACC regarding information on products and services (1)	23	27
No. of claims in which BoS and CNMV have pronounced in favour of LK	10	16

(1) Claims related to incorrect information or bad advice, mainly information about all types of fees and costs (account maintenance, overdraft, etc.).

	2019	2020
No. of claims submitted to the Claims Service of the Bank of Spain and the CNMV in relation to the advertising of products and services and privacy.	0	0
No. of claims in which BoS and CNMV have pronounced in favour of LABORAL Kutxa	0	0
Cost of fines for non-compliance with regulations on the provision and use of services.	0	0

	2019	2020
Penalties imposed on the Group (euros) for non-compliance with laws and regulations	40.00	0

*The 2019 sanction corresponds to the Data Protection Agency (AEPD).

Lagun Aro	2019	2020
Open cases (claims and complaints)	695	696
No. of claims submitted to the Insurance and Pension Funds D.G. Claims Service	30	24
% of closed cases estimated or partially estimated	49.9%	47.8%
Average response time (days)	10.35	11.09
Number of payments in favour of the customer €	115,758	82,564
% final reports received from supervisor (total or partial) in favour of the claimant	3.2%	19.3%
CLBS	**2019**	**2020**
Open cases (claims and complaints)(1)	10	10
% of closed cases estimated or partially estimated (1)	0%	9.1%
Average response time (days)	0.44	2.36
Number of payments in favour of the customer €	0	0

(1) Most of the rejections occur because they are addressed to other Entities.

Main figures for responsible products and services

	2019		2020	
	No.	Thousand €	No.	Thousand €
Micro-credits	1,127	17,795	1,759	26,335
Personal Loan	283	1,032	178	397
Insured Cards	273,147	-	268,184	-
Erkide Loan	1	1.3	1	14
FCTC Loan	0	0	0	0
CEPES / ASLE Loan	0	0	5	60

The volume of these agreements in 2019 and 2020 was as follows:

Public Organisation (thousands of euros)	No. of operations formalised		Amount formalised		Balance available as at 31/12	
	2019	2020	2019	2020	2019	2020
ICO	0	4,595	0	450,750	6,899	382,422
Basque Government+Elkargi	0	2,825	0	193,864	9,238	200,121
Government of Navarra+Sodena	0	393	0	29,169	2,887	29,642
EIF	168	126	22,664	11,244	90,470	69,371
EaSI Micros II	0	1,757	0	26,617	0	41,718
Araba-Bizk-Gipuzk Council Offices	0	0	0	0	815	599
Luzaro	37	31	3,991	4,073	12,500	12,738
Other Agreements	3	0	804	0	16,650	13,659
Loans+Leasing	**208**	**9,727**	**27,460**	**715,417**	**139,458**	**752,417**
With mutual guarantee societies (Elkargi, Iberaval, Sonagar, Oinarri, etc.)	303	3,602	41,013	266,763	159,638	386,169
Without mutual guarantee societies (ICO, European Investment Fund, etc.)	1,333	6,725	49,512	527,361	142,590	529,796
Guaranteed Loans+Leas.	**1,636**	**10,327**	**90,525**	**794,124**	**302,229**	**916,684**

Customers using new channels	2019	2020
No. of CLNet contracts	677,920	713,377
Customers active on CLNet	430,504	484,068
% active customers based on contracts	63.5%	67.9%
Mobile Banking (users who have accessed via mobile)	342,528	396,274
Alerts (active contracts)	377,360	385,426
Bizum	160,014	240,702

4.2. People

Partner workforce of LK by sex and professional category*	2019				2020			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	17	1.0%	6	0.4%	19	1.0%	6	0.35%
Managers	236	14%	120	7.1%	226	14%	123	7.26%
Technicians	307	18.1%	356	21.0%	312	18.11%	375	22.12%
Clerical staff	122	7.2%	248	14.6%	117	7.20%	234	13.81%
Others	167	9.8%	116	6.8%	183	9.85%	144	8.50%
Total	849	50%	846	50%	857	50%	882	52%
Active partners	1,695				1,739			

*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.

Staff of LK by age	2019						2020					
	Partner			Remainder			Partner			Remainder		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Up to 30	1	3	4	43	73	116	5	3	8	56	78	134
Between 31 and 40	122	218	340	17	43	60	99	211	310	23	28	51
Between 41 and 50	430	428	858	8	4	12	415	430	845	7	3	10
Between 51 and 60	273	189	462	2	1	3	314	232	546	3	1	4
Over 60	23	8	31	0	0	0	24	6	30	0	0	0
Group staff	**849**	**846**	**1,695**	**70**	**121**	**191**	**857**	**882**	**1,739**	**89**	**110**	**199**

CLBS workforce by sex, prof. category and business area	2019				2020			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	1	0.6%	0	0%	0	0.00%	0	0.00%
Managers	8	4.7%	2	1.2%	8	4.68%	2	1.17%
Technicians	0	0%	6	3.5%	0	0.00%	1	0.58%
Sales managers	30	17.5%	124	72.5%	25	14.62%	99	57.89%
Group staff	39	22.8%	132	77.2%	33	19.30%	102	59.65%
Central Serv.	2	1.2%	6	3.5%	1	0.58%	1	1%
Commercial Network	37	21.6%	126	73.7%	32	18.71%	101	59%
Group staff	39	22.8%	132	77.2%	33	19.30%	102	59.65%
Group staff	171				135			

CLBS staff by age	2019			2020		
	Men	Women	Total	Men	Women	Total
Up to 30	1	0	1	0	1	1
Between 31 and 40	3	21	24	2	12	14
Between 41 and 50	21	76	97	13	49	62
Between 51 and 60	14	35	49	18	40	58
Over 60	0	0	0	0	0	0
Group staff	39	132	171	33	102	135

Lagun Aro staff by sex and prof. category	2019				2020			
	Men		Women		Men		Women	
	No.	%	No.	%	No.	%	No.	%
Directors	4	8%	2	4%	4	8%	2	4%
Managers	14	26%	12	23%	14	26%	12	23%
Technicians	31	58%	50	94%	32	60%	51	96%
Clerical staff	4	8%	46	87%	5	9%	46	87%
Group staff	53	33%	110	67%	55	33%	111	67%

Staff of Lagun Aro by age	**2019**		**2020**	
	M	**W**	**M**	**W**
Up to 30	0	1	2	2
Between 31 and 40	5	11	4	11
Between 41 and 50	18	59	18	52
Between 51 and 60	29	38	29	46
Over 60	1	1	2	0
Sum	**53**	**110**	**55**	**111**
Group staff	**163**		**166**	

All of Lagun Aro's workers are indefinite.

All but three of the staff at CLBS have an indefinite contract, being distributed between the LABORAL Kutxa Head Office and the business network. There are three temporary female employees, one under 30 years of age and two between 31 and 41 years of age who are insurance managers.

Lagun Aro has 162 permanent and 4 temporary employees.

Contractual relationship LK (situation as at 31/12)	2019			2020		
	Total	Men	Women	Total	Men	Women
Active partners	*1,695*	*849*	*846*	1,739	857	882
Surpluses	27	2	25	20	2	18
Secondment	15	5	10	15	5	10
Early retirees	161	110	51	88	56	32
Company contracts	1,898	966	932	1,862	920	942
Temps. Full-time	182	63	119	186	81	105
Temps. Part-time	3	1	2	6	1	5
Temporary Contracts	185	64	121	192	82	110
Indefinite Contracts	6	6	0	7	7	0
Total workforce as at 31/12	2,089	1,036	1,053	2,061	1,009	1,052
Lagun Aro contractual relationship	163	53	110	166	55	111

LK contracts by age as at 12/31	2019						2020					
	Total	Up to 30	31-40	41-50	51-60	> 60	Total	Up to 30	31-40	41-50	51-60	> 60
Active partners	*1,695*	4	340	858	462	31	*1,739*	*8*	*310*	*845*	*546*	*30*
Surpluses	*27*	1	20	5	1	-	*20*	*0*	*12*	*7*	*0*	*1*
Secondment	*15*	1	6	4	4	-	*15*	*0*	*4*	*6*	*5*	*0*
Early retirees	*161*	-	-	-	121	40	*88*	*0*	*0*	*0*	*52*	*36*
Company contracts	**1,898**	**6**	**366**	**867**	**588**	**71**	**1,862**	**8**	**326**	**858**	**603**	**67**
Temps. Full-time	182	113	50	10	8	1	186	128	51	6	1	0
Temps. Part-time	3	3	-	-	-	-	6	6	0	0	0	0
Temporary Contracts	**185**	**116**	**50**	**10**	**8**	**1**	**192**	**56**	**0**	**0**	**0**	**0**
Indefinite Contracts	6	-	-	1	3	2	7	0	0	4	3	0
Total workforce	**2,089**	**122**	**416**	**878**	**599**	**74**	**2,061**	**64**	**326**	**862**	**606**	**67**

Workforce by location (LK and CLBS)	2019				2020			
	Partners	Employee	Women	Men	Partners	Employee	Women	Men
Central Services	401	42	227	216	415	50	233	232
Individuals	27	0	12	15	26	0	12	14
Insurance	28	0	10	18	61	0	39	22
Company	91	1	24	68	88	3	26	65
Reg. Network 1	546	95	383	258	491	108	368	231
Reg. Network 2	602	53	311	344	658	38	314	382
Total 31/12	1,695	191	967	919	1,739	199	992	946

The entire Lagun Aro workforce works in Central Services.

Terminations and annual rotation of Working Partners in LABORAL Kutxa	2019	Up to 30		Between 31 and 40		Between 41 and 50		Between 51 and 60		Over 60	
		W	M	W	M	W	M	W	M	W	M
Terminations in the year:	**117**	**0**	**0**	**22**	**4**	**10**	**3**	**2**	**0**	**4**	**5**
Voluntary and Public Office Leave	2	-	-	2	-	1	-	-	-	-	-
Leave Caring for children/family	43	-	-	20	3	8	2	-	-	-	-
Retirement	6	-	-	-	-	-	-	-	-	4	5
Death or Disability	4	-	-	-	-	-	-	1	-	-	-
Voluntary Resignation	5	-	-	-	1	1	1	-	-	-	-
On secondment	2	-	-	-	-	-	-	-	-	-	-
Early retirees	55	-	-	-	-	-	-	1	-	-	-
Total departure rate (*)	6.64%	0.00%	0.00%	10.09%	0.00%	2.34%	0.00%	1.06%	0.00%	50.00%	0.00%
Directors departure rate	18.52%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Managers departure rate	5.18%	0.00%	0.00%	17.65%	0.00%	2.53%	0.00%	0.00%	0.00%	0.00%	100.00%
Technicians departure rate	7.56%	0.00%	0.00%	11.38%	4.88%	1.86%	0.00%	1.49%	0.00%	100.00%	16.67%
Clerical staff departure rate	6.06%	0.00%	0.00%	6.41%	0.00%	2.72%	2.16%	1.04%	0.00%	20.00%	13.33%
Departure rate	6.64%	0.00%	0.00%	3.25%	66.67%	6.21%	2.19%	2.99%	0.00%	50.00%	21.74%

(*) 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 2019, the departure rate for women was 8.13%, with 7.90% being over 30 years of age and the rest under 30 years of age. In the case of men, the departure rate was 5.06%, all of whom were over 30 years of age.

In 2019 and 2020 there were no involuntary departures.

Terminations and annual rotation in CLBS	2019	2020	
		Men	Women
Terminations in the year:	8	0	3
Leave Caring for children/family	1	-	-
Retirement	0	-	-
Disability	1	-	1
Agreed end of contract	0	-	-
Voluntary Resignation	5	-	1
End of contract	0	-	1
Dismissals	1	-	-
Terminations of Women in the year	6	-	-
Terminations of Men in the year	2	-	-
Total departure rate	4.68%	0.00%	1.75%
Women's departure rate	4.32%	0.00%	2.16%
Men's departure rate	5.13%	0.00%	0.00%

*All of the departures in 2020 were women.

*By age the rate is different, with 19.05% in women aged 31-40 years and 1.32% in women aged 41-50 years.

Terminations and annual rotation of Working Partners in Lagun Aro	2019	2020
Terminations in the year:	5	2
Voluntary Resignation	0	0
Others	5	1
Terminations of Women in the year	2	1
Terminations of Men in the year	3	1
Total departure rate *	**3.07%**	**1.20%**
Women's departure rate	1.82%	0.90%
Men's departure rate	5.66%	1.82%

**Total departures, for both men and women, are people over 30.

In LABORAL Kutxa there have been no dismissals in the last two years. At CLBS there have been no redundancies in 2020:

2019			2020		
Sex	Age	Category	Sex	Age	Category
W	58	GES	-	-	-

Dismissals at Seguros Lagun Aro:

2019			**2020**		
Sex	**Age**	**Category**	**Sex**	**Age**	**Category**
M	58	Director	M	57	Administrative staff
M	58	Manager			
W	60	Specialist			
W	60	Administrative staff			
M	46	Administrative staff			

Training in LABORAL Kutxa and CLBS	**2019**	**2020**
Number of courses	456	500
Hours of training	168,298	160,740
Hours of training/person	81.38	77.2
Partner	83.27	71.73
Temporary	62.15	131.08
Average training in hours by category (individually)		
Directors	71.83	67.91
Office Managers and Directors	93.90	71.67
Technicians	82.26	78.16
Clerical staff	73.70	79.06

Hours of training	2019		2020	
	Women	Men	Women	Men
Directors	24.5	119.2	36.67	31.24
Managers/DO	61.3	126.5	38.70	32.97
Gc-Tecn	93.9	70.6	42.21	35.95
GOP	88.5	58.9	42.69	36.37

Training in Seguros Lagun Aro	2019	2020
Hours of training	3,737.3	4329.48
Women	2,567.8	2463.31
Men	1,169.5	1866.17
Hours of training/person	20.31	26.56
Directors	620	312.39
Office Managers and Directors	643	857.93
Technicians	2,311.3	1873.82
Clerical staff	163	1285.34

The proportion between participants on courses by sex (women / men) in 2020 was 1.42 compared to 1.1 in 2019.
The percentage of different people trained was 98.79% in 2020 and 99% in 2019.

Regarding the promotion index, understood as an improvement in the structural wage index, in 2020 it was 8.1%. Including other non-structural concepts such as seniority, this rises to 23.6% (7.09% and 28.21% in 2019).

LK average employment index	2019	2020
Women	2.21	2.22
Men	2.50	2.50
Difference M/W	13.2%	12.71%

*The average employment index was 2.37, which was equivalent as at 31/12/2020 to €2,986.17 gross per month.

LK average employment index	2019		2020	
	M	W	M	W
Direct.	4.80	3.95	4.74	4.09
Manager	2.84	2.72	2.85	2.74
Specialist	2.36	2.20	2.36	2.21
Admin.	2.10	1.95	2.11	1.96

LK pay by age	2019		2020	
	Man	Woman	Man	Woman
Up to 30	(1)	36,147	33,187	37,214
Between 31 and 40	41,218	35,604	40,946	35,027
Between 41 and 50	47,171	40,378	46,674	41,040
Between 51 and 60	50,664	44,691	51,188	44,757
Over 60	51,581	43,149	49,097	44,532

(1) There are no men under 30.

Average employment index CLBS	2019	2020
Women	2.12	2.08
Men	2.68	2.78
Difference M/W	26.4%	34.15%

Average employment index CLBS	2019		2020	
	M	W	M	W
Direct.	3.34	-*	-*	-*
Manager	3.46	3.39	3.46	3.39
Specialist	0.00	2.66	-*	2.07
Mngr.	2.45	2.07	2.57	2.05

*There are no people in this range.

Remuneration at CLBS by age	2019		2020	
	Man	Woman	Man	Woman
Up to 30	1.27	-*	-*	1.00
Between 31 and 40	1.95	2.08	2.00	1.86
Between 41 and 50	2.47	2.12	2.42	2.08
Between 51 and 60	3.25	2.14	3.14	2.16
Over 60	-*	-*	-*	-*

*There are no people in this range.

Lagun Aro average salary	2019	2020
Women	47,294	48,836
Men	64,517	65,759
Difference M/W	36.42%	34.65%

Salary by sex and professional cat. (€ thousands)	2019		2020	
	Men	Women	Men	Women
Directors	99.5	79.63	101.7	83.27
Managers	74.5	68.66	76.45	70.31
Technicians	59.27	50.13	61.63	52.18
Clerical staff	45.3	37.5	40.66	38.03

Remuneration at LABORAL ARO by age	2019		2020	
	Man	Woman	Man	Woman
Up to 30	0	38,106	25,092	6,401
Between 31 and 40	48,012	34,465	47,790	38,643
Between 41 and 50	64,954	47,200	64,807	50,190
Between 51 and 60	67,467	50,977	70,388	51,588
Over 60	91,874	63,216	86,136	0

The data relating to absenteeism in the Group are presented below.

Hours and absenteeism rate	2019	Men	Women	2020	Men	Women
Accident and Illness	111,443	41,856	69,587	126,428	54,776	71,652
Maternity	20,653	-	-	15,340	-	-
Paternity	4,858	-	-	8,824	-	-
Other*	2,874	-	-	2,970	-	-
Total Hours Absenteeism LK	139,828	-	-	153,561	-	-
Absenteeism RateLK	3.80	2.83	4.79	4.23	2.851	4.61
Absenteeism Rate Lagun Aro	3.89	0.36	4.01	3.03	0.57	2.46
Total hours absenteeism Lagun Aro	1,607	-	-	7,656	-	-
Absenteeism rateCLBS	4.99	3.40	8.24	7.00	2.88	9.24
Total hours absenteeism CLBS	16,281	-	-	17,866	-	-

* Care of sick children

The following is information regarding accidents in the Group.

LK and CLBS work accidents	**2019**	**2020**
Accidents	46	25
Accident frequency (1)	3.22	2.12
Accident severity (2)	0.05	0.05
No. hours worked LK	Nd	2,825,897
No. hours worked CLBS	Nd	257,261
Accidents Lagun Aro (3)	0	2
Accident frequency	0	0
Accident severity	0	0
No. hours worked Lagun Aro	nd	266,400

(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
(3) In itinere, no sick leave, no fatalities

Out of the accidents in 2020, 12 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. The two accidents at Lagun Aro are female and in itinere.

There are no occupational illnesses in our activity for the Group. No subcontractor accidents have been recorded.

4.3. Environment

Postamail Users	2019	2020
Number of users.	568,282	596,409
% Users from total customer base	50.62%	52.45%

	LABORAL K./ Lagun Aro	
Paper consumption kg	2019	2020
Promotional paper/customer	0.116	0.089
Office paper/customer	0.251	0.206
Total consumption/customer	0.323	0.296
Total paper consumption/person	184.56	149.27

Energy (Gj)	2019	2020	Seguros LA 2019	Seguros LA 2020
Electricity	46,497	41,419	1,256	827
Diesel	20.9	22.4	0	0
Propane	0.47	0.21	0	0
Energy consumption A	46,518	41,442	1,256	827
Energy consumption/pers.	22.43	19.85	7.7	4.98

The data presented corresponds to all LABORAL Kutxa, as well as all the staff.

The intensity of greenhouse gas emissions, measured as total CO2 emissions among the LK workforce, would be 0.39 in this case, compared to 2.34 in 2019. Lagun Aro's was 0.18 in 2020 compared to 1.03 in 2019.

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.

In 2016, the training course "Systems and policies for the prevention of criminal behaviour" was launched and it has been completed by 84.4% of the staff. Training on "Prevention of money laundering and terrorist financing" was also sent to all staff at the end of 2020 and completed by 88.1% of the staff.

5. Information on the Report

Report Profile

The 2020 Report is the seventh 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 2020 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 Banca Seguros (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 281 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 2020 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 was 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 equivalences

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 biodiversity:		
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 figures Other figures_ workforce	GRI 403-2
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 GRI 207-1-4
Any other relevant information:		GRI 207-1-4

6.2. GRI content Index

GENERAL CONTENTS 2016

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 44 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	Ownership and legal form.	Caja Laboral Popular Coop. de Crédito 11 Share capital
102-6	Specify which markets are served (with a geographical breakdown, by sector and type of customers and recipients).	12 Geographic distribution 38 Management approach and Main customer figures 83 Other customer figures
102-7	Determine the size 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 Main Figures of the Group 85-86 Other figures-People
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.	85-86 Other figures-People
102-9	Describe the organisation's supply chain.	78-81 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 15-17 Risk management and strategy 9 Investee Companies 78-81 Our relationship with supplier companies
102-11	Describe how the organisation addresses, if applicable, the precautionary principle.	15-17 Risk management and strategy 18-22 Principles and Government 28-29 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.	69-71 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.	15-17 Risk management and strategy 33-35 Materiality analysis 30-31 Commitments and Achievements 32-33 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.	23-25 Corruption and bribery 39-40 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 18-20 Corporate Governance 38-40 Dialogue with customers 33-35 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.	18-20 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, and updating of the organisation's purpose, values or mission statements, strategies, policies, and objectives with respect to economic, environmental, and social impacts.	18-20 Corporate Governance 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.	23 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	18 Corporate governance Refer to Corporate Governance Report

	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.	
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.	18 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.	18-20 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.	52 Dialogue with staff In the annual report to the Governing Board regarding CSR activities, the relevant activities were identified. There have been no reports of critical concerns.
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.	23 Remuneration of the Governing Bodies See Consolidated Annual Accounts p.211
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.	58-59 Remuneration management 23 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	18 Corporate governance 58-59 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).	58-59 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.	30-31 Commitments and achievements The stakeholders are examined annually in the materiality study. 33-35 Materiality analysis 38-40 Dialogue with Customers 52 Dialogue with People 52-53 Joint Negotiation 68 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.	94 Report Profile 33-35 Materiality analysis
102-47	Prepare a list of material Aspects that were identified while defining the contents of the Report.	33-35 Materiality analysis
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.	94 Report Profile

102-50	Period covered by the Report.	2020
102-51	Date of the last Report (if applicable).	Report for 2019 published in May 2020
102-52	Reporting cycle (annual, biennial).	94 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.comor 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 99-103 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.	94-95 Report Profile The Director of the Financial Area approved the request for verification of the Report.

MANAGEMENT APPROACH 2016

103-1	Specify the coverage of the organisation for each significant aspect.	33-35 Materiality analysis 15-17 Risk management and strategy
103-2 103-3	Management approach and its components. Evaluation of the management approach.	13-15 Main figures 28-29/38/51/64-67/71-73 Management approach 33-35 Materiality analysis 15-17 Risk management and strategy
CATEGORY: ECONOMIC		
	Aspect: economic performance 2016	
201-1	Direct economic value generated and distributed.	13 Main figures

201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	44-50 Responsible Products and Services. 74 Transparency in fossil fuel exposure 77-78 Climate change
201-3	Defined benefit plan obligations and other retirement plans.	58-59 Remuneration management 63 Coop. Returns Capitalised
201-4	Financial assistance received from the government.	15 Grants
	Aspect: market presence 2016	
202-1	Correlation between the initial salary broken down by gender and the local minimum wage.	58-59 Remuneration management
202-2	Proportion of senior managers from the local community.	18 Corporate governance
	Aspect: indirect economic impacts 2016	
203-1	Investments in infrastructure and supported services.	71 Our relationship with the Environment 65-66 Gaztenpresa 14 Taxes and duties
203-2	Significant indirect financial impacts and their scope.	66-67 Indirect Contributions to Society
	Aspect: Procurement practices 2016	
204-1	Percentage of the expenditure in places with significant operations that corresponds to local suppliers.	80 Main figures-suppliers
	Aspect: Anti-corruption 2016	
205-1	Number and percentage of centres where Risks related to corruption have been assessed and risks identified.	23-25 Corruption and bribery
205-2	Anti-corruption communication and training policies and procedures	92 Training in Anti-Corruption Procedures 23 Development of the governing bodies 23-25 Corruption and bribery
205-3	Confirmed cases and measures taken.	23-25 Corruption and bribery 27 Regulatory compliance
	Aspect: unfair competition 2016	
206-1	Legal actions related to unfair competition and monopolistic and anti-competitive practices.	There were no claims or legal actions in the years covered by the Report
	Aspect: taxation 2019	
207-1	Fiscal approach.	14-15 Taxation
207-2	Fiscal governance, control and risk management.	14 Taxation
207-3	Stakeholder engagement and management of tax concerns.	14 Taxation
207-4	Country-by-country reporting.	14 Taxes and duties
CATEGORY: ENVIRONMENTAL		
	Aspect: materials 2016	
301-1	Materials used by weight or volume.	75-77 Sustainable use of resources
301-2	Percentage of the materials used that are recycled materials.	75-77 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 2016	
302-1	Internal energy consumption.	75 Sustainable use of resources
302-2	External energy consumption.	75 Sustainable use of resources 77-78 Climate change
302-3	Energy intensity	75-77 Sustainable use of resources
302-4	Reduction in energy consumption.	75-77 Sustainable use of resources
302-5	Reductions in the energy requirements of products and services.	44 Environmentally Responsible Products and Services
	Aspect: water and effluents 2018	
303-1	Interaction with water as a shared resource.	75-77 Sustainable use of resources
303-2	Management of impacts related to water discharges.	
303-3	Water extraction.	
303-4	Water discharges.	
303-5	Water consumption.	
	Aspect: biodiversity 2016	
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 2016	
305-1 305-2	Total direct and indirect greenhouse gas emissions by weight	77 Climate change
305-3	Other indirect greenhouse gas emissions, by weight.	77 Climate change
305-4	Intensity of greenhouse gas emissions.	92 Other figures-Environment
305-5	Reduction in greenhouse gas emissions.	71-78 Our Relationship with the Environment 77-78 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: wastes 2020	
306-1	Generation of waste and significant impacts related to waste.	LABORAL Kutxa has ISO 14001 environmental certification, audited annually, which guarantees proper waste management. 33 environmental performance indicators 75 Circular ec and waste management
306-2	Management of significant impacts related to waste.	
306-3	Generated waste.	
306-4	Waste not destined for disposal.	
306-5	Waste destined for disposal.	
	Aspect: environmental compliance 2016	
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 suppliers 2016	
308-1	Percentage of new supplier companies that were examined based on environmental criteria,	78-81 Our relationship with supplier

308-2	Significant actual and potential negative environmental impacts in the supply chain and measures taken,	companies

CATEGORY: SOCIAL

Aspect: employment 2016

401-1	New employee recruitment and staff turnover.	85-91 Other figures - People
401-2	Benefits for full-time employees that are not given to part-time or temporary employees.	62-63 Social Benefits Package
401-3	Parental leave.	85-91 Other figures-People

Aspect: management-employee relations 2016

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 2018

403-1	Occupational health and safety management system	60-62 Occupational Health and Safety
403-2	Hazard identification, risk assessment and incident investigation	60-62 Occupational Health and Safety
403-3	Occupational health services	Given the financial nature of the business, there are no occupational illnesses or high risks of illness.
403-4	Worker participation, consultation and communication on occupational health and safety at work	60-62 Occupational Health and Safety
403-5	Occupational health and safety training for workers.	60 Occupational Health and Safety
403-6	Promotion of workers' health.	61-62 Health plan-Zainduz
403-7	Prevention and mitigation of impacts on the health and safety of workers directly linked through business relationships.	Given the activity, no negative impacts of trade relations are detected
403-8	Occupational health and safety management system coverage	60 Occupational Health and Safety
403-9	Work-related injuries.	60 Accident rate 91 Accidents at work
403-10	Occupational diseases and illnesses.	60 Occupational Health and Safety

Aspect: training and education 2016

404-1	Average hours of training per year per employee, broken down by sex and by professional category	85-91 Other figures-People
404-2	Skills management and continuing education programmes that promote employability and help manage the end of their professional careers.	54 Continuing education programmes 54 Training for people entering retirement
404-3	Percentage of people who receive regular performance and career development reviews, broken down by sex and by professional category	54-55 Performance Management-Bidean

Aspect: diversity and equal opportunities 2016

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.	85-91 Other figures-People 18 Corporate Governance
405-2	Ratio of basic salary of men to women, broken down by professional category and key business locations.	58-59 Remuneration management 85-91 Other figures-People Equal pay for equal work, regardless of whether male or female

Aspect: non-discrimination 2016

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 2016

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 2016

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 or compulsory labour 2016

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 practices 2016

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: indigenous peoples' rights 2016

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: Human rights assessment 2016

412-1	Operations subject to 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.
412-2	Employee training on human rights policies or procedures.	Training is provided on corruption and money laundering, as well as communications on sexual harassment.
412-3	Significant investment agreements and contracts with clauses on human rights or subject to human rights assessment.	Due to the activity carried out and the geographical environment, no risks in this regard have been detected. Supplier companies must accept the code of ethics that includes a clause on human rights.

Aspect: local communities 2016

413-1	Percentage of centres where programmes for development, impact assessment and local community participation have been implemented.	64-65 Profit sharing 33-35 Materiality analysis
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: social assessment of suppliers 2016

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.
414-2	Significant actual and potential negative social impacts in the supply chain and the measures taken.	

Aspect: public policy 2016

415-1	Value of political contributions, by country and recipient.	67 Relations with Government Agencies and Political Parties
	Aspect: customer health and safety 2016	
416-1	Percentage of significant product and service categories for which health and safety impacts have been assessed to promote improvements.	38-340 Our relationship with customers 44-50 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.	84 Sanctions 83-84 Customer Service
	Aspect: marketing and labelling 2016	
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.). 38-40 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.	84 Sanctions 83-84 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.	84 Sanctions 83-84 Customer Service
	Aspect: customer privacy 2016	
418-1	Number of substantiated complaints about violation of privacy and leaking of customer data.	84 Sanctions 83-84 Customer Service
	Aspect: socio-economic compliance 2016	
419-1	Cost of significant fines due to non-compliance with regulations and legislation concerning the supply and use of products and services.	84 Sanctions 83-84 Customer Service 26 Regulatory Compliance

PRODUCT PORTFOLIO

FS1	Description of the policies with specific environmental and social content applied to the business areas	30-31 Commitments and achievements 65-66 Gaztenpresa Fund 47-48 Socially Responsible Investment 71 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.	56-58 Diversity and Equal Opportunities 47-48 Socially Responsible Investment 71 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	71 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	38-40 Dialogue with Customers 52 Dialogue with staff 68 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 38 Main customer figures 83 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	44-50 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	48 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.	94 Report Profile 71 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.	38-40 Dialogue with Customers 78-81 Our relationship with supplier companies
FS11	Percentage of assets subject to positive and / or negative environmental and social screening	73-74 Environmental risk assessment 47-48 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.	48-49 Accessibility to Financial Services
FS14	Initiatives to improve access to people with disabilities	48-49 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. 38 Our Relationship with Clients 40-43 Responsible management with customers
FS16	Initiatives to expand financial culture, broken down by types of beneficiaries	49-50 Financial Culture 70-71 Financial Education 65-66 Gaztenpresa Fund 66-67 Indirect contributions to society

6.3. Principles of Responsible Banking

Reporting requirements and self-assessment	High-level summary of the bank's response	References/Links to full bank response/relevant information
Principle 1: Alignment. Align the business strategy to be coherent and contribute to people's needs and societal goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.		
1.1. *Describe* (high level) the bank's business model, including the main customer segments served, the types of products and services provided, the main sectors and types of activities and, where relevant, the technologies financed in the main geographies in which your bank operates or provides products and services.	Throughout the Sustainability Report and Statement of Non-Financial Information 2020, which follows GRI standards and has been audited by AENOR, we provide answers to these questions.	1.1 Presentation of the Group (P.8) 1.3. Cooperativism (P. 10) 1.5. Geographic distribution of offices (P. 12) 1.6. The Group's main figures (P.13) 3.1.2. Main customer figures (P.38) 3.1.6. Responsible products and services (P.44) 4.1 Clientele (P.83) Main figures for responsible products and services (P. 85)
1.2. *Describe* how the bank has aligned and/or plans to align its strategy to be coherent and contribute to societal goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement and relevant national and regional frameworks.	Within Laboral Kutxa's general strategic reflection for 20-22, the PRBs have been integrated. At the end of 2020, a reflection has been initiated to propose a sustainable finance strategy. The aim is to understand our initial situation in order to identify areas for improvement and establish a global strategy. This strategy will be completed and implemented in 2021.	0. Letter (p.5-6) 1.7. Risk management ad strategy (P. 15) 2.6. United Nations Global Compact and Sustainable Development Goals (P. 35)
Principle 2: Impact and target setting. Continuously increase positive impacts while reducing negative impacts and managing risks to people and the environment resulting from activities, products and services. To this end, set and publish targets where the most significant impacts can be made.		
2.1 Impact analysis: *Show* that the bank has identified the areas where it has its most significant positive and negative (potential) impact through an impact analysis that meets the following elements: a) <u>Scope</u>: The main business areas, products/services of the bank in the principal areas in which the bank operates as described in 1.1. have been considered in the scope of the analysis. b) <u>Scale of exposure</u>: Where is your core business/main activities in terms of industries, technologies and geographies. c) <u>Context and relevance</u>: most relevant challenges and priorities related to sustainable development. d) <u>Scale and intensity/importance of impact</u>: Social, economic and environmental impacts resulting from the bank's activities and the provision of products and services.	For the Sustainability Report we conducted an impact, risk and opportunity analysis as well as a materiality study. A specific analysis was planned for 2020, using the tool launched by UNEP FI, in the development of which we participated. Both because of the situation experienced by COVID in 2020 and because of the difficulty in obtaining reliable data, this analysis has only begun and is expected to be completed in 2021. The tool is an instrument designed to	1.7. Risk management ad strategy (P. 15-18) 1.8. Principles and governance (P. 18-22) 2.5. Materiality Analysis (P.33-35) 3.16. Responsible products and services (P. 44-50) 3.4. Our relationship with the environment (P. 71-78) 30-31 Commitments and Achievements 32-33 CSR Scorecard

Show that based on this analysis, the bank has • Identified and disclosed its most significant areas of positive and negative impact (potential) • Identified strategic business opportunities in relation to increasing positive impacts / reducing negative impacts.	analyse the impact of banks' portfolios, helping to analyse the impacts associated with their retail and wholesale portfolios. The analysis will allow us to set targets where it is important to further their contribution to society's goals, as required by the Principles for Responsible Banking.	
Please provide the bank's conclusion / statement if the requirements related to the Impact Analysis have been met.		
In 2020 we started to conduct the impact analysis using the tool proposed by UNEP FI but we were not able to progress at the pace we had planned due to the crisis and the difficulty in obtaining reliable data. The aim is to complete it in 2021 and communicate it in next year's report.		
2.2. Target setting *Show* that the bank has established and published a minimum of 2 specific, measurable (qualitative or quantitative), achievable, relevant and time-bound targets that address at least 2 of the identified "areas of most significant impact". *Show* that the targets are linked to and drive alignment and further contribution to the SDGs, Paris Agreement targets and other relevant international, national or regional frameworks. Identify and set targets against a baseline (assessed against a particular year). *Show* that the bank has analysed and recognised the significant (potential) negative impacts of the targets and has established relevant actions to mitigate them to the extent possible to maximise the net positive impact.	In 2019, following a strategic reflection, 10 measurable objectives were established that contribute to the objectives of society. To establish these objectives, the Principles of Responsible Banking were taken into account and aligned with the bank's objectives. These objectives affect the main areas of sustainability on which the bank has an impact. Following the reflection on sustainable finance that is currently underway, new targets will be set.	1.7. Risk management ad strategy (P. 15) 2.6. United Nations Global Compact and Sustainable Development Goals (P. 35) 26 Commitments and Achievements
Provide the conclusion/statement on whether the requirements have been fulfilled with regard to the Setting of objs.		
As a consequence of signing the PRBs we have set 10 measurable targets in our strategic period 2020-2022.		
2.3. Plans for implementation and monitoring of targets *Show* that the bank has defined actions and milestones to meet the set targets. *Show* that the bank has established the means to measure and monitor progress against the set objectives. Definitions of key performance indicators, any changes to these definitions and any overshooting of baselines should be transparent.	In addition to the Strategic Plan, the objectives have been integrated into the annual Management Plan, with sub-objectives, responsible persons and action lines. The evolution of these objectives is monitored on a quarterly basis by the Controlling department, which supervises their evolution. The annual evolution of these objectives is explained in the Sustainability Report.	2.6. United Nations Global Compact and Sustainable Development Goals (P. 35) 3.2.5. Diversity and equal opportunities (P. 56) Gaztenpresa Foundation (P. 65) 26 Commitments and Achievements
Provide the conclusion/statement on whether the bank has met the requirements with regard to the Plans for the implementation and monitoring of objectives.		
We have implemented plans and lines of action in the Management Plan to meet the objectives. They are constantly monitored and evaluated at the end of each period.		

2.4. Progress in the implementation of objectives <u>For each objective separately:</u> *Show* that the actions that were previously defined have been implemented. *Explain* why the actions could not be implemented/needed to be modified and how the bank is adapting its plan to meet the stated objective. *Report* on the bank's progress over the past 12 months in achieving each of the stated objectives and the effect of its progress.	In 2020 overall the achievement of the objectives has been positive. Most of them have been met, with the exception of those directly related to financial activity, which has been slowed down by the COVID-19 crisis. 3 of the targets set for 2022 have already been met.	30 Commitments and Achievements
Provide the conclusion/statement on whether the bank has met the requirements with regard to the progress on the implementation of objectives		
Progress in reaching the targets is positive despite the exceptional situation in 2020.		
Principle 3: Clients and Consumers. Work responsibly with customers and consumers to promote sustainable practices and enable economic activities that generate shared prosperity for current and future generations.		
3.1. *Give a general description* of the policies and practices that the bank has implemented and/or plans to implement to promote responsible relationships with its customers. Include high-level information on the programmes and actions implemented (and/or planned), their scale and the results thereof.	Describe the practices implemented by LABORAL Kutxa to promote responsible customer relations. We are convinced that as a credit cooperative, this way of acting responsibly has been a constant since our origins.	3.1. Our relationship with clients (P. 38)
3.2. *Describe* how the bank has worked and/or plans to work with its clients to promote sustainable economic activities. Include information on planned/implemented actions, developed products and services, and achieved impacts.	This section describes the actions taken to implement responsible customer relations.	3.1. Our relationship with clients (P. 38) 3.1.3. Dialogue with clients (P. 38)
Principle 4: Stakeholders. Consult, engage and partner proactively and responsibly with relevant stakeholders to achieve societal goals.		
4.1. *Describe* which stakeholders you have consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving the bank's impacts. Describe how the bank has identified relevant stakeholders and what issues were addressed/results achieved.	In order to produce the Sustainability Report, stakeholders have been identified with whom dialogue mechanisms are in place. These dialogues also cover business and sustainability issues.	2.4. Materiality analysis (P. 33) 30 Commitments and achievements The stakeholders are examined annually in the materiality study. 38 Dialogue with customers 52 Dialogue with People 52 Joint Negotiation 68 Dialogue with Society
Principle 5: Governance and culture. Implement commitment to these Principles through effective governance and a culture of responsible banking.		
5.1. *Describe* the relevant governance structures, policies and procedures the bank has implemented/is planning to manage significant positive and (potential) negative impacts and support the effective implementation of the Principles.	Laboral Kutxa has mechanisms in place to manage impacts and risks, as well as a CSR Committee. The CSR Committee is responsible for and leads initiatives related to sustainability, including the Principles. This sustainability governance is due to be reviewed in 2021.	1.8. Principles and governance (P. 18) 23 Development of the governing bodies
5.2. *Describe* the initiatives and measures the bank has implemented or plans to implement to foster a responsible banking culture among its employees. This should include a high-level	Laboral Kutxa is a credit cooperative in which workers are owners of the company, and therefore	1.3. Cooperativism (P. 10) Values, principles, standards and rules of conduct p.11

overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, among others.	take part democratically in management and decision-making. Our cooperative banking is a social economy and the culture of responsible banking forms part of how we operate. In 2021, sustainability targets have been set as part of the variable remuneration of the members of the Management Committee.	1.10. Remuneration of the governing bodies (P.23) 1.8. Principles and governance (P. 18) 3.2.7. Remuneration Management (P. 58)
5.3. Governance structure for implementing the Principles *Show* that the bank has a governance structure in place, which includes: a) setting objectives and actions to achieve them. b) corrective actions in case they are not achieved or unexpected negative impacts are detected.	As mentioned above, the Principles have been integrated into the Strategic Plan and the Management Plan, which is monitored. The CSR Committee leads, promotes and monitors everything related to sustainability.	In the specific case of environmental objectives, we have UNE EN ISO 14001 environmental certification. 3.4.1. Management approach - Environment (P. 71)
Provide the conclusion/statement on whether the bank has met the requirements with regard to the governance Structure for the implementation of the Principles.		
Laboral Kutxa maintains a structure for sustainability management that will be reviewed in 2021. The current structure, which stems both from our configuration as a credit cooperative and from the continuous effort to improve and adapt our organisation, will be reinforced.		
Principle 6: Transparency and accountability. Periodically review individual and collective implementation of these Principles and be transparent and accountable for positive and negative impacts and contribution to societal goals.		
6.1. Progress in implementing the Principles for Responsible Banking *Show* that the bank has made progress in implementing the Principles in the last 12 months and has established and implemented objectives in a minimum of two areas. *Show* that the bank has considered existing and emerging good practices relevant to the implementation of the Principles and has defined priorities and ambitions to align with good practices. *Demonstrate* that the bank has implemented/is working on implementing changes to existing practices to reflect and align with existing and emerging good practices, and has made progress in implementing these Principles.	There are two main initiatives underway: On the one hand, the ongoing reflection on sustainable finance. As part of this, a benchmarking of best practices of the most advanced institutions in this field has been carried out. At the same time, a working group has been formed to comply with the regulatory obligations that are arising from the regulators, such as Regulation 2088/2019.	Since the signing of the Principles, we have participated in the initiatives carried out by UNEP FI to advance in their implementation. This allows us to be at the forefront of the best practices that are being carried out at international level.
Provide the conclusion/statement on whether the bank has met the requirements with regard to the progress on the implementation of the principles of responsible banking		
After an initial phase of mainstreaming and target setting, the implementation of the Principles will be accelerated by the general reflection on sustainability that we have launched at the end of 2020.		

6.4. Implementation of TCFD climate change recommendations.

The Financial Stability Board (FSB) commissioned the TCFD (Task Force On Climate-related Financial Disclosures) to develop a reporting framework to help the market assess the performance of companies with respect to climate change and to contribute to stakeholder decision-making. The following table shows LABORAL Kutxa's first progress report and summary.

Situation as at 31/12/2020

1. Governance

Disclose the organisation's governance of climate-related risks and opportunities.

RECOMMENDATIONS	IMPLEMENTED	PLAN 2021
1. Describe management's role in assessing and managing climate-related risks and opportunities. 2. Describe the board's control over climate-related risks and opportunities.	• The Risk Committee advises the Board of Directors on the management and supervision of all relevant risks, and on monitoring the implementation of the overall risk appetite appropriate to the Entity's strategy. • The Governing Council reviews the sustainability performance on an annual basis. • Currently the Environment Committee, as part of the environmental programme and ISO 14001 environmental certification, analyses the environmental risks and opportunities affecting LABORAL Kutxa.	• An initial analysis of risks and opportunities related to climate change is planned, as well as an analysis of the impact of the activity. • This analysis is part of the commitments acquired as signatories of the United Nations Principles of Responsible Banking. • A review of sustainability governance is also envisaged as part of the ongoing reflection on a sustainable finance strategy.

2. Strategy

Disclose the current and potential impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning where material.

RECOMMENDATIONS	IMPLEMENTED	PLAN 2021
1. Describe the climate-related risks and opportunities identified by the organisation in the short, medium and long term.	• Calculation of exposure to fossil fuels in the Sustainability Report.	• As mentioned above, a sustainable finance strategy was initiated in 2020 and will be completed and implemented in 2021, which includes carrying out an impact analysis, as well as a data governance plan.

RECOMMENDATIONS	IMPLEMENTED	PLAN 2021
2. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning. 3. Describe the resilience of the organisation's strategy, taking into account different climate-related scenarios, such as a scenario of 2°C or less.	• In 2020, several members of the Board of Directors, the Management Committee and heads of directly affected departments (e.g. Global Risk Management) underwent extensive training by AFI (International Financial Analysts) on sustainable finance in which climate-related risks and opportunities were addressed. • We participated in the development of the UNEP FI impact analysis tool. • Sustainability has been included as a cross-cutting aspect of LABORAL Kutxa's strategy for the 2020-2022 period, while 10 specific and measurable objectives have been established.	• The 2021 Training Plan includes a minimum of 10 hours of staff training on sustainable finance, including climate risks and opportunities. • A first impact analysis will be carried out with the UNEP FI tool.

3. Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks.

RECOMMENDATIONS	IMPLEMENTED	PLAN 2021
1. Describe the organisation's processes for identifying and assessing climate-related risks. 2. Describe the organisation's processes for managing climate-related risks. 3. Describe how the processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	• Environmental risk control procedure for financing company operations. • Implemented an IT enhancement to record the energy rating of mortgaged homes as well as the fuel used by financed vehicles. • Analysis of risks and opportunities within ISO14001 environmental certification. • Exclusion criteria in financing and investment.	• Development of the commitments acquired by signing the Principles of Responsible Banking. • Implementation of the measures required by Regulation 2088/2019 on disclosure on the integration of environmental risks in investment and advice. • Analyse the implementation of the European Union taxonomy in the classification of the portfolio.

4. Metrics and targets

Disclose metrics and objectives used to assess and manage relevant climate-related risks and opportunities where such information is material.

RECOMMENDATIONS	IMPLEMENTED	PLAN 2021
1. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in accordance with its risk strategy and management process. **2.** Disclose Scope 1, Scope 2 and, if applicable, Scope 3 for greenhouse gas (GHG) emissions and related risks. **3.** Describe the objectives used by the organisation to manage climate-related risks and opportunities and performance against targets.	• Information on financing renewable energies. • LABORAL Kutxa discloses its carbon footprint in its Sustainability Report. • Sustainability objectives in the Strategic Plan. It is worth highlighting the 83% reduction in the carbon footprint by 2020, mainly as a result of consuming all electrical energy from renewable sources.	• Begin incorporating climate-related risks into Laboral Kutxa's risk appetite framework. • Work on extending the measurement of Scope 3 to include the portfolio's emissions. • Consider setting long-term targets for emissions reduction and portfolio exposure.

6.5. Reporting level of the Report

LABORAL Kutxa declares that this Report has been prepared in accordance with the GRI standards: Comprehensive option. This was indicated by the results of AENOR's external verification.

6.6. 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 2020

conforme a la ley 11/2018

correspondiente al ejercicio anual finalizado el 31 de diciembre 2020

En Madrid a 3 de marzo de 2021

Rafael García Meiro
Director General

2013/0863/VNOF-2020

AENOR INTERNACIONAL S.A.U. C/ GÉNOVA 6, 28004 MADRID
Página 1 de 4


AENOR Confía

Verificación de la Memoria de Sostenibilidad

VMS-2021/0006

AENOR ha verificado que el Informe de Sostenibilidad

Memoria de Sostenibilidad y Estado de Información no Financiera 2020

de

CAJA LABORAL POPULAR, COOP. DE CREDITO LTDA.

es conforme con la Opción Exhaustiva definida en los estándares GRI

Periodo objeto del informe: 2020

Fecha de emisión: 2021-03-19

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: 31/12/2020

CIF (Tax ID): F75076935

Corporate Name:

CAJA LABORAL POPULAR COOP. DE CRÉDITO

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	15.02

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 17 July 2020, 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 for the 2019 financial year (unanimously).

- Approving the Non-Financial Information report for 2019 (unanimously).

- Ratifying the interest on the share capital paid on account in 2019 (unanimously).

- Distributing the net surpluses from the year, allocating 10% to the Education and Promotion Fund, 15% to the Voluntary Reserves 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 2021 General Meeting will set the interest to be paid on the contributions to registered capital corresponding to 2020 and, nonetheless, authorising the Governing Board to make payments on account, complying with all the limits and conditions established for this purpose by legal and other applicable regulations. (unanimously).

- Extending the appointment of Price Waterhouse Cooper as auditors of the entity for the 2020 financial year (unanimously).

- Amending the Rules of Procedure and related agreements (unanimously)

- Amending articles 3, 5, 18, 26, 27, 29, 33, 35, 36, 37, 43, 54, Second Additional Provision and the four Transitional Provisions of the Articles of Association (unanimously).

- To apply the new term of office of 5 years regulated in article 36 of the Articles of Association to six members of the Governing Board (unanimously).

- Electing three new members of the Governing Board to comply with the increase from 12 to 15 directors regulated in article 36 of the Articles of Association (unanimously)

- Renewal of the inspectors (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/administrative body members and their different statuses:

Name or company name of the board /administrative body member	Representative	Date of last appointment
TXOMIN GARCIA HERNANDEZ		30/09/2019
MS MARÍA LAURA RODRÍGUEZ GONZÁLEZ		30/09/2019
ELENA ZARRAGA BILBAO		30/09/2019
MR RICARDO PÉREZ AGUADO		30/09/2019
AINHOA GALLASTEGUI MARTINEZ		30/09/2019
MR XABIER SAGARNA ARRIZABALAGA		30/09/2019
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	Positio n
TXOMIN GARCIA HERNANDEZ	SEGUROS LAGUN ARO, S.A.	CHAIR
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 members							
	2020 Financial year		2019 Financial year		2018 Financial year		2017 Financial year	
	Number	%	Number	%	Number	%	Number	%
Administrative board	6	50.00	6	50.00	6	50.00	6	50.00
Audit Committee	2	50.00	2	50.00	2	67.00	2	67.00
. Appointments	2	40.00	2	40.00	2	40.00	2	40.00
. Payments	2	40.00	2	40.00	2	40.00	2	40.00
Risks Committee	4	67.00	4	67.00	3	60.00	3	60.00

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 entities, in accordance with the definition contained in the Audit Act, will have to report, as a minimum, on the policy they have in place in relation to gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

If yes, describe this diversity policy, its objectives, measures and how it has been implemented and its results for 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.

In order to promote an appropriately diverse collective that brings a variety of views and experiences to promote independent opinions and sound decision making, 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, appointment, renewal and diversity of the Governing Board and in the assessment and suitability processes.

It should be noted that, as at 31 December 2020, the minimum percentage established for the under-represented gender is once again exceeded, given that gender parity is maintained in the composition of the Governing Board, the cooperative's highest administrative body, achieved in 2017. At year-end, the General Assembly approved an amendment to the Articles of Association to increase the number of members of the Governing Board to 15. With this increase, the % of the under-represented gender will be 46%.

Furthermore, in terms of selection and appointments and succession 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.

There were no changes in the management team in 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	135	
Variable salary	0	
Expens		
Other payments		
TOTAL	135	

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	Positio
MR XABIER EGUIBAR GAINZA	General Manager
OSCAR EGUSKIZA SIERRASESUMAGA	Risks Director
JOSU ARRAIZA MARTÍNEZ DE LAGRAN	Media Director
MR IBON URGOITI URIOSTE	Business Development Director
ADOLFO PLAZA IZAGUIRRE	Financial Director
NURIA AGUIRRE UNZUETA	Corporate Management Director
MS SUSANA ANDRÉS GORGOJO	Director of the Mendebaldea Commercial Division
MR JAVIER CORTAJARENA GOÑI	Director of the Ekia Commercial Division
MR JAVIER GORROÑOGOITIA ITURBE	Director Treasury and Markets Division
MR JOSEBA MIKEL MARURI HERNAEZ	Director Technology and Analytics Division
MR PABLO MOGELOS GARCIA	Seguros Lagun Aro, S.A. Manager
Total senior management payments (in thousands of Euros)	1,43

C.1.8 Indicate whether the board's articles of association or regulations establish a limited mandate for the members of the board/administrative body:

[√] Yes
[ ] No

C.1.9 Indicate whether the individual and consolidated annual accounts that are presented for preparation to the board/administrative body have been previously certified:

[ ] Yes
[√] No

Identify, when appropriate, the person or persons that have certified the individual and consolidated annual accounts for the entity, for their formulation by the board or administrative body:

C.1.10 Explain, if they exist, the mechanisms established by the board or administrative body to prevent the individual and consolidated accounts they have formulated being presented at the general council or equivalent body with exceptions in the audit report.

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the supervision of the preparation and presentation of the regulated financial information and the supervision of the effectiveness of the internal control systems.

C.1.11 Is the secretary of the board or administrative body also a member of the board?

[√] Yes
[ ] No

C.1.12 Indicate, if they exist, the mechanisms established to maintain the independence of the external auditor, the financial analysts, the investment banks and the classification agencies, including how legal provisions have been implemented in practice:

The regulations of the Governing Board regulate an Audit Committee which is assigned, among its other functions, the task of establishing the suitable relationships with the account auditors or audit companies in order to receive information regarding matters which may present a risk to their independence, requiring annual written confirmation of this independence. In this regard, the Audit Committee has issued a report in which it expresses an opinion confirming the independence of the external auditor, prior to the accounts audit report being issued.

C.2. Committees of the board or administrative body

C.2.1 List the committees of the board or administrative body:

Name of the committee	No. of members
AUDIT COMMITTEE	4
APPOINTMENTS COMMITTEE	5
REMUNERATIONS 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	Positio	Category
NAGORE LARRABEITI LIBANO	CHAIR	
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 specific duties of the Audit Committee are those set out in the Governing Board's regulations (art. 10.3), i.e.:

a) To inform the General Meeting about the issues raised there on matters within their competence.

b) To propose to the Governing Board, for submission to the General Assembly, the appointment of the auditors or audit firms, in accordance with the regulations applicable to the entity.

c) To supervise the effectiveness of the company's internal control, internal audit, which depends functionally on the Committee, and risk management systems, as well as discuss with the auditors or audit firms any significant weaknesses in the internal control system detected in the course of the audit.

(d) To oversee the process of preparation and presentation of regulated financial information.

e) To establish appropriate relations with the auditors or audit firms in order to receive information on those matters that may jeopardise their independence, for examination by the Committee, and any other matters related to the process of auditing the accounts, as well as any other communications provided for in legislation on auditing the accounts and in auditing standards. In any case, they must receive annually from the auditors or audit firms written confirmation of their independence from the entity or entities directly or indirectly related to it, as well as information on additional services of any kind provided to these entities by the aforementioned auditors or firms, or by persons or entities related to them in accordance with the provisions of Law 22/2015 of 20 July on the Audit of Accounts and Regulation (EU) No. 537/2014.

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.

g) To supervise compliance with codes of conduct and corporate governance rules.

The Regulations of the Governing Board establish that the Audit Committee will meet whenever it is considered appropriate when called by its Chair, by his/her own accord or at the request of any of its members. Attendance at meetings shall be in person, with no room for representation. The Committee shall be validly constituted when more than half of its members attend the meeting. Each member of the Committee has one vote and motions are adopted by simple majority of issued votes 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 2020, the following are highlighted:

- It has supervised and assessed the internal control of the financial information system (FIICS) established in the entity, as well as the process of preparing and presenting the financial information that is published, based on the disclosures of the Internal Audit Department, with the following verifications being of particular note:

- 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

-Supervision of the Financial Information Internal Control System (FIICS) through the review procedure established by the Internal Audit Department (refer to section F.5.1.).

- It has supervised and assessed the entity's risk control and management system, as well as the associated policies, methods and procedures, through the disclosures of the Internal Audit Department, with the following verifications being of particular note:

- Review of the Capital and Liquidity Self-Assessment Process.

- Review of the Prudential Information published by the entity.

- Review of the process of drafting and submitting the Recovery Plan.

- Review procedure required by Annex 9 of the Banco de España Circular 4/2017

- 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	ELENA ZARRAGA BILBAO
	MR RICARDO PÉREZ AGUADO
Date the Chair was appointed to the post	04/01/2019

Appointments Committee		
Name	Positio	Category
MS ITZIAR ELGARRESTA IBARRONDO	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
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	5

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 his/her 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 another 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 2020 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.
- 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.
- 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	Positio	Category
MS MARIA ESTHER KORTA ERRAZKIN	CHAIR	
MR PABLO LUIS BRINGAS VELEZ	MEMBER	
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	5

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 members (40% of the total) and Txomin García is another 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 2020 of the Remuneration Committee, the following are noteworthy:

- Reporting to the Governing Board on the various remuneration proposals.
- Proposed application of the Individual Variable Remuneration for the financial year 2019 for the members of the Identified Collective.
- Proposed formulation of IVR 2020 objectives for the members of the Identified Collective.
- Regulatory proposal for Individual Variable Remuneration for the 2020 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.

Risks Committee		
Name	Positio	Category
ELENA ZARRAGA BILBAO	CHAIR	
MS NAGORE LARRABEITI LIBANO	MEMBER	
LUIS MARIA UGARTE AZPIRI	MEMBER	
TXOMIN GARCIA HERNANDEZ	MEMBER	
AINHOA GALLASTEGUI MARTINEZ	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	6

Explain the functions attributed to this committee, and describe the procedures and rules for its organisation and operation. For each of these functions, indicate the most important actions performed during the year and how each of the functions attributed to it has been exercised in practice, whether in law or in the Articles of Association or other corporate resolutions.

The 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 current and future global risk propensity of the entity and its strategy on this matter, assisting it in the monitoring of the application of this strategy and the specific policies of management, supervision and reduction of risks to which the entity is or may be exposed.

- To ensure that the assets and liabilities pricing policy offered to clients takes into account the business model and the risk strategy of the entity. Otherwise, to present the governing board with a plan to resolve it.

- To advise the Governing Board on the management and supervision of all the relevant risks of the entity.

- To advise the Governing Board regarding stress tests and capital planning in relation to risks.

- To ensure that suitable resources are assigned to risk management and the efficiency of the internal organisation.

- To ensure that there are efficient channels of information in terms of risks from the Governing Board to the organisation and vice versa, defining, together with the Governing Board, the nature, quantity, format and frequency of the information on risks which must be received by the committee and the Governing Board.

- To supervise the valuation of assets, the use of external credit classifications and the internal models regarding risks.

- To help establish rational remunerations practices and policies. To examine whether the incentives policy planned in the remuneration system takes into account the risk, capital, liquidity and probability and opportunity of profit.

The Regulations establish that the Risks Committee 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 another 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 2020, the Risk Committee in the performance of its duties has carried out:

- The monitoring and control of all risks through quarterly ALCO releases.
- It has analysed and validated the modifications of the various risk policies and manuals.
- It has analysed and validated the update of limitations and competences for the various types of risks, including Seguros Lagun Aro.
- It has analysed and validated the 2019 IAC.
- It has analysed and validated the Recovery Plan.
- It has analysed and validated the risk appetite framework (RAF), the annual risk appetite statement (RAS) and performed its monitoring, and the stress testing methodology and scenario.
- It has analysed and validated the control of the fact that the prices of the formalised transactions exceed the cost of the transaction, in accordance with Annex IX.

- It has analysed and validated the proposed remuneration policy.
- It has analysed and validated the 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 matters 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. In order to carry out its functions, it relies on the Risk Committee, which is made up of members of the Governing Board, and on its direct presence in the Principal 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 escalated 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, counterpart, country, concentration and market risks), operational risk, reputational risk, ESG (environmental, social and governance) risks, technological 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 COAP 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 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).

In section 3.6. - Reliability of the information- of the Code of Ethics and Professional Conduct of Caja Laboral defines both the governing bodies and the roles assigned to each of them, in relation to FIICS:

-The Caja Laboral Governing Board is the 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 suitable.

-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 Social Management Division (HR) and the Commercial Management 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 Body in November 2019.

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 business partners and employees are responsible for the reliability, accuracy, completeness and timeliness, irrespective of the responsibilities specifically attributed to certain areas of the Group for the integrity and availability of information, of the data contained in the various types of records used and of the information they produce in the course of their duties.

-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 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 conduct from a criminal perspective.

Furthermore, Caja Laboral also has an Internal Code of Conduct in the area of the securities market, the last update being approved by the Governing Board in May 2018, and 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, with the Policy of Criminal Compliance, 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 its effectiveness and the validity of its efficiency over time.

Thus, the process for identifying risks with a potential impact on the financial statements is significant, focusing on identifying the critical management processes related to the generation of financial information and the areas or headings of the financial statements where the mentioned risks materialise. In the process of analysing processes and areas, both quantitative (balance and granularity) and qualitative factors (degree of automation of the processes, operation standardisation, level of accounting complexity, changes with regard to the previous financial year, identified weaknesses in control, etc.) are considered.

The financial information internal control risks evaluation and identification is dynamic, it continuously evolves over time, reflecting the reality of the business of the group, the risks which affect it and the controls which mitigate it, at each moment in time. The evaluation of the effectiveness of the FCIIS controls is performed based on the indicated risks identification process, taking into account the changes in the organisation and business of the group and considering the level of materiality, probability of occurrence or possible financial impact of the risk which include the mentioned controls.

- Whether the process covers all objectives of the financial information (existence and occurrence; integrity; valuation; presentation; breakdown and comparability; and rights and obligations), and whether it is updated and with what frequency.

The process has been designed taking into account all objectives of the financial information considered in the Internal Control Document on financial information in the listed entities issued by the CNMV (existence and occurrence, integrity, valuation, presentation, breakdown and comparability, and rights and obligations).

As indicated above, the criteria to be followed for all types of identifiable risks and which are included in the design of the FIICS are both quantitative and qualitative, as well as considering the identification of error and fraud risks related to published financial information.

The foreseen frequency of the identification process of the relevant material areas and processes is at least annually, using the most recent financial information. Furthermore, this evaluation will also be performed whenever circumstances arise which have not been previously identified and which show possible errors in the financial information or when substantial changes are made in the operations which may lead to the identification of new risks, including situations which entail changes in the structure of the Group, such as: modifications to the scope of consolidation or in the business lines, or other relevant events, among other aspects.

· The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental or special purpose entities:

The entity has a procedure for identifying and updating the scope of consolidation, which is the responsibility of the Financial Department. Every quarter, the inventory of investee companies is reviewed 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:

- Lending
  - 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 Finance Division 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 Finance Division 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 adequate records and control of its operations. It is therefore highly dependent on its proper functioning.

For this reason, the Entity has internal control policies and procedures over its information systems which, directly or indirectly related to the financial statements, ensure the correct preparation and publication of financial information at all times.

In particular, the following aspects of the Entity's internal control model are particularly relevant:

1. Security Committee, the body responsible for defining and supervising the Entity's security activities.

2. Security Standards Body (Cuerpo Normativo de Seguridad - CNS), a documentary body containing the mandatory corporate security requirements. The CNS has been approved by the Management and is applicable throughout the Entity. It is composed of policies that provide high-level details of the objective in each security domain, and of corporate standards that define the specific controls to be implemented for each of the security areas. In addition, it includes the definition of security functions, as well as the persons responsible for carrying them out. Within the CNS there are also updated procedures for the security of information systems, which define the technical and organisational guidelines necessary to prevent the alteration, loss, unavailability, unauthorised access and unauthorised processing of the Entity's resources and data. This includes, among others, requirements to ensure proper access control and segregation of duties.

3. Procedure regulating the steps to be followed for the registration and management of implemented changes. The Entity also has a procedure and methodology for testing new developments and maintaining existing ones. New developments or improvements to the Entity's information systems must include requirements related to information security in order to guarantee the availability, confidentiality and integrity of the information contained therein.

4. Crisis Management Committee, the body in charge of coordinating and supervising the implementation and actions related to Business Continuity in the event of a Crisis situation.

5. Business continuity and disaster response and recovery plan, aimed at ensuring the safety of people and the continuity of operations. To this end, back-up systems are in place for all critical assets, including redundant communication lines and alternating suppliers, as well as specific recovery strategies for the risk scenarios defined in the Plan. This plan is communicated to employees and, in order to ensure its correct functioning and operability, it is regularly tested and monitored. The results of these tests are used in the periodic review and update process of the plan.

6. General IT Controls Procedure that establishes the bases of internal control over the information systems that support the Entity's processes in relation to 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 2020, the activities entrusted to third parties related to valuations and calculations by independent experts were those relating to the 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 Finance Division 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 Financial Division that supervises the compliance of these investee companies with the accounting policies established by the Group. This Financial Division 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 Financial Division is responsible for revising, analysing and updating the accounting standards. This division 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 Financial Division is responsible for reviewing the financial information reported by the subsidiary companies.

The Financial Division performs a series of controls to ensure the reliability and correct processing of the financial information received from the subsidiaries and the business units, among which are checks on the correct implementation of the various consolidation entries, variations in the results obtained on the budget and the checks specific to Banco de España, where the various balance sheet and profit and loss account entries are interlinked.

F.5. **Supervising the 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, are those regarding the supervision of the process of development and presentation of regulated financial information and the internal control systems of the company and delegating the development of these activities to the internal audit department.

The Internal Audit Function (IAF) acts independently as the third line of defence in the entity's risk management and control framework and is exercised by the staff of the Internal Audit Department.

In order to carry out its functions, the Internal Audit Department is organised around a Department Director and three distinct functions, depending on the type of activity they carry out: Audit of IT Processes and Risks (IT Audit), Audit of Centralised Processes and Risks (Audit of Central Departments) and Audit of Decentralised Processes and Risks (Audit of Offices and Remote Offices), and its mission is to supervise and ensure the adequacy and effectiveness of the entity's internal control, risk management and governance processes and systems.

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 2020 financial year included the following reviews:

- Review of the transversal accounting closure process. In addition, the process of preparing and presenting the financial information published by Caja Laboral, at individual and consolidated level, has been 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 transversal process of fiscal and legal Management.

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 2020 has been regularly presented to the Audit Committee by the Director of the Internal Audit Department.

F.5.2 Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in the Technical Auditing Standards), the internal audit team and other experts can report to senior management and to the Audit Committee or the entity's directors any significant control weaknesses detected during the annual account review processes or any others assigned to them. Furthermore, whether there is an action plan to correct or mitigate 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 Audit Plan usually includes work for monitoring the measures that have been adopted.

With regard to the result of the work carried out by internal audit, the reports issued are presented by the manager of the department to the Audit Committee and, depending on their relevance, to the Board of Directors, contrasted beforehand with the audited division, and the degree of implementation of the plans of action approved to respond to the recommendations issued by the IAF.

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 nuance relating to the previous sections of the report can also be included in this section as long as it is relevant and does not repeat what has already been stated.

Specifically, indicate whether the entity is subject to any legislation other than Spanish law on matters of corporate governance and, if so, include any information that you are obliged to provide that is not included in this report.

The entity may also indicate whether it has voluntarily adhered to other codes of ethics or good practices, either international, sectoral or of another scope. When applicable, the entity will identify the code in question and the date of adhesion.

1.- This information complements section A. Property structure:

The majority of the cooperatives and their trading companies which are partners of Caja Laboral, in turn form part of Mondragón Corporación Cooperativa. This corporation, which Caja Laboral is part of, is a group of freely associated cooperatives which share a set of cooperative values and which seek to achieve competitive advantages from their joint cooperative action.

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:

26/02/2021

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 2020

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 2020.

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 26 February 2021, 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 2020. 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)